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United Nations

United Nations Development Programme

Financial report and audited financial statements

for the biennium ended 31 December 2001 and

Report of the Board of Auditors

General Assembly
Official Records
Fifty-seventh Session
Supplement No. 5A (A/57/5/Add.1)

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Report of the Board of Auditors

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Note

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Letters of transmittal and certification

30 April 2002

Pursuant to financial regulation 26.01, we have the honour to submit the financial statements of the United Nations Development Programme (UNDP) for the biennium ended 31 December 2001, which we hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

We, the undersigned, acknowledge that:

The management is responsible for the integrity and objectivity of the financial information included in these financial statements.

The financial statements have been prepared in accordance with the United Nations system accounting standards and include certain amounts that are based on management's best estimates and judgements.

Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that, overall, policies and procedures are implemented with an appropriate segregation of duties. UNDP internal auditors continually review the accounting and control systems. Further improvements are being implemented in specific areas.

The management provided the United Nations Board of Auditors and UNDP internal auditors with full and free access to all accounting and financial records.

The recommendations of the United Nations Board of Auditors and UNDP internal auditors are reviewed by the management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

We each certify that, to the best of our knowledge, information and belief, all material transactions have been properly charge in the accounting records and are properly reflected in the appended financial statements.

(*Signed*) Mark Malloch **Brown**
Administrator

(*Signed*) Jan **Mattsson**
Assistant Administrator
Bureau of Management

The Chairman of the Board of Auditors
United Nations
New York

27 June 2002

I have the honour to transmit to you the financial statements of the United Nations Development Programme ended 31 December 2001, which were submitted by the Administrator. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

(*Signed*) Shauket A. Fakie
Auditor-General of the Republic of South Africa
and Chairman
United Nations Board of Auditors

The President of the General Assembly of the United Nations
New York

Chapter I

Financial report for the biennium ended 31 December 2001

1. The Administrator has the honour to submit his financial report, together with the audited financial statements of the United Nations Development Programme (UNDP) for the biennium ended 31 December 2001 and the report of the Board of Auditors. This submission is made in conformity with the Financial Regulations of the United Nations Development Programme. The financial statements consist of statements and schedules, accompanied by notes, which are an integral part of the financial statements, and include all trust funds established by the Administrator as well as all funds established by the General Assembly and administered by UNDP.

2. The UNDP financial statements incorporate expenditure data obtained from the executing agents. As far as possible, the data are obtained from the agents' audited statements or, when such statements are not available at the time of the year-end closing of the UNDP accounting records, either from the agents' statements as submitted for audit or from the agents' unaudited statements.

3. As at the date of preparation of the present financial statements, the status of information received from the executing agents was as follows:

(a) Audited statements were provided by the World Tourism Organization;

(b) Statements for audit or unaudited statements were provided by the following:

African Development Bank

Asian Development Bank

Economic Commission for Africa

Economic Commission for Europe

Economic Commission for Latin America and the Caribbean

Economic and Social Commission for Asia and the Pacific

Economic and Social Commission for Western Asia

International Atomic Energy Agency

International Bank for Reconstruction and Development

International Civil Aviation Organization

International Finance Corporation

International Labour Organization

International Maritime Organization

International Monetary Fund

International Organization for Migration

International Telecommunication Union

International Trade Centre

United Nations Department of Economic and Social Affairs

United Nations Centre for Human Settlements (Habitat)

United Nations Conference on Trade and Development

United Nations Educational, Scientific and Cultural Organization

United Nations Industrial Development Organization

United Nations Institute for Training and Research

Universal Postal Union

World Health Organization

World Intellectual Property Organization

World Meteorological Organization

Changes in accounting practices and policies in the biennium

Accounting policies

4. A summary of significant accounting policies applied in the preparation of the financial statements is provided in note 2 to the financial statements. Overall policies are the same as those applied in the financial statements of 31 December 1999. Changes in accounting policies, if any, are disclosed appropriately in note 2.

Presentation of accounts

5. Following the recommendation of the Administrative Committee on Coordination (now the United Nations System Chief Executives Board for Coordination) on the common interorganizational accounting standards and harmonized presentation of financial statements, UNDP has fully adopted the recommended format for the biennium ended 31 December 2001.

6. In addition, the Executive Board may recall its decision 97/6 in which it harmonized the budget presentation for UNDP, the United Nations Children's Fund and the United Nations Population Fund. The new harmonized format distinguishes UNDP regular resources from its other resources (cost-sharing, government cash counterpart contributions, trust funds established by UNDP, reimbursable support services activities and other miscellaneous activities) and from the activities of the funds established by the General Assembly and administered by UNDP (United Nations Capital Development Fund (UNCDF), United Nations Volunteers (UNV), United Nations Development Fund for Women (UNIFEM), United Nations Revolving Fund for Natural Resources Exploration (UNRFNRE) and United Nations Fund for Science, Technology and Development (UNFSTD)). UNDP adopted this decision in the biennium 1996-1997 in order to facilitate the Board's review of the biennial financial results.

7. In the biennium 2000-2001, UNDP mobilized contributions of $5 billion overall, of which 25.6 per cent related to regular resources activities, 47.7 per cent to cost-sharing, 17.7 per cent to trust funds, 6 per cent to reimbursable support services and miscellaneous activities and 3 per cent to UNDP-administered funds established by the General Assembly.

8. Total expenditure amounted to $5.2 billion, out of which 80.8 per cent ($4.2 billion) was spent on programme/project activities, 2.5 per cent ($131.9 million) on support costs paid to other United Nations agents, 14.7 per cent ($771 million) for the biennial support budget and 2 per cent ($106.2 million) on miscellaneous costs. Miscellaneous costs include a $54 million provision for after-service health insurance, which is explained further in note 16 to the financial statements. Income and expenditure for the biennium are summarized in table I.1 and figure I.1.

Figure I.1
Summary of income and expenditure for the biennium ended 31 December 2001

(Millions of United States dollars)

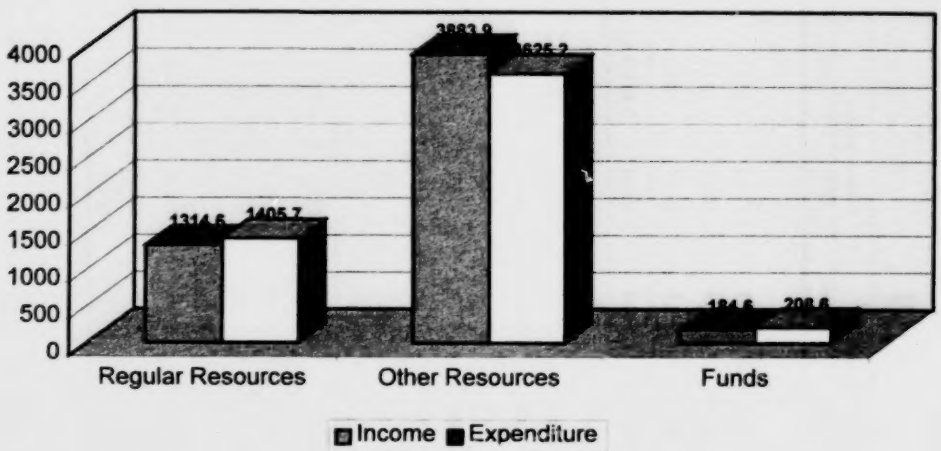


Table I.1
Combined income and expenditure as at 31 December
(Millions of United States dollars)

	Regular resources		*Other resources*		*Funds*		*Total* [a]	
	2001	*1999*	*2001*	*1999*	*2001*	*1999*	*2001*	*1999*
Income								
Contributions, net	1 285.9	1 427.1	3 570.8	3 410.0	148.9	148.5	5 005.6	4 985.6
Interest income	(35.7)	68.3	181.6	127.1	14.7	20.8	160.6	216.2
Other income, net	64.4	9.0	131.5	84.2	21.0	17.3	216.9	110.5
Total income	**1 314.6**	**1 504.4**	**3 883.9**	**3 621.3**	**184.6**	**186.6**	**5 383.1**	**5 312.3**
Expenditure								
Programme	710.9	1 077.8	3 333.2	3 275.1	164.2	159.8	4 208.3	4 512.7
Programme support — implementing agents	75.8	89.9	45.9	57.5	10.2	6.2	131.9	153.6
Biennial support budget	500.4	493.1	237.6	169.6	33.0	28.7	771.0	691.4
Support to resident coordinator	16.6	21.0	3.2	0.7	-	-	19.8	21.7
Development support services	2.3	-	-	-	-	-	2.3	-
UNDP sectoral support	-	0.5	-	-	-	-	-	0.5
Other expenditure	99.7	10.0	5.3	3.3	1.2	0.6	106.2	13.9
Total expenditure	**1 405.7**	**1 692.3**	**3 625.2**	**3 506.2**	**208.6**	**195.3**	**5 239.5**	**5 393.8**
Excess (shortfall) of income over expenditure	(91.1)	(187.9)	258.7	115.1	(24.0)	(8.7)	143.6	(81.5)
Net excess (shortfall) of income over expenditure	(91.1)	(187.9)	258.7	115.1	(24.0)	(8.7)	143.6	(81.5)
Unexpended resources								
Opening balance	107.0	285.0	1 251.0	1 199.1	117.7	130.8	1 475.7	1 614.9
Transfers, refunds and savings	29.4	9.9	(19.3)	(63.2)	5.8	(4.4)	15.9	(57.7)
Closing balance	45.3	107.0	1 490.4	1 251.0	99.5	117.7	1 635.2	1 475.7

[a] Aggregate totals only; not consolidated.

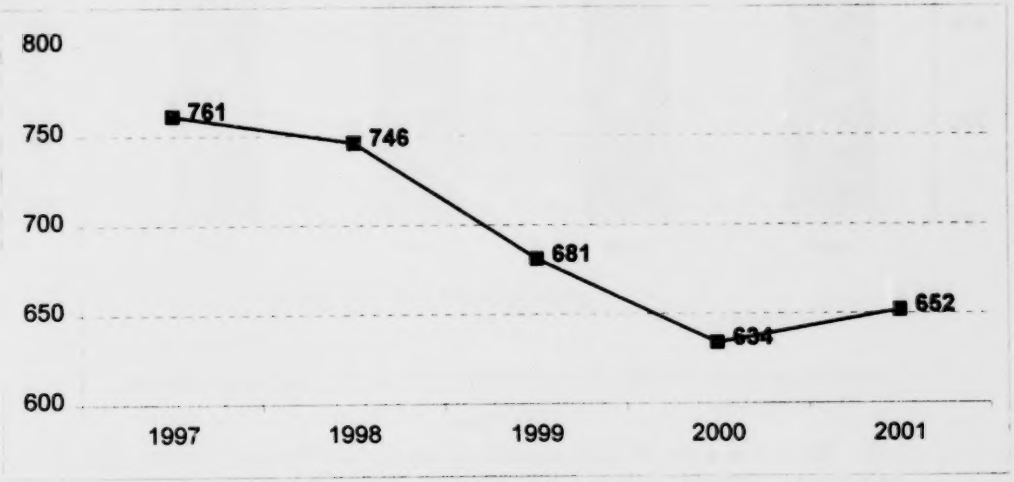
Regular resources

Income

9. Voluntary contributions declined by 9.9 per cent ($141.2 million) in comparison with the previous biennium (see figure I.2).

10. The average rate of return on investments was around 6 per cent. Other income comprised mainly exchange gains and losses, including $19.2 million in gains from foreign exchange management activities.

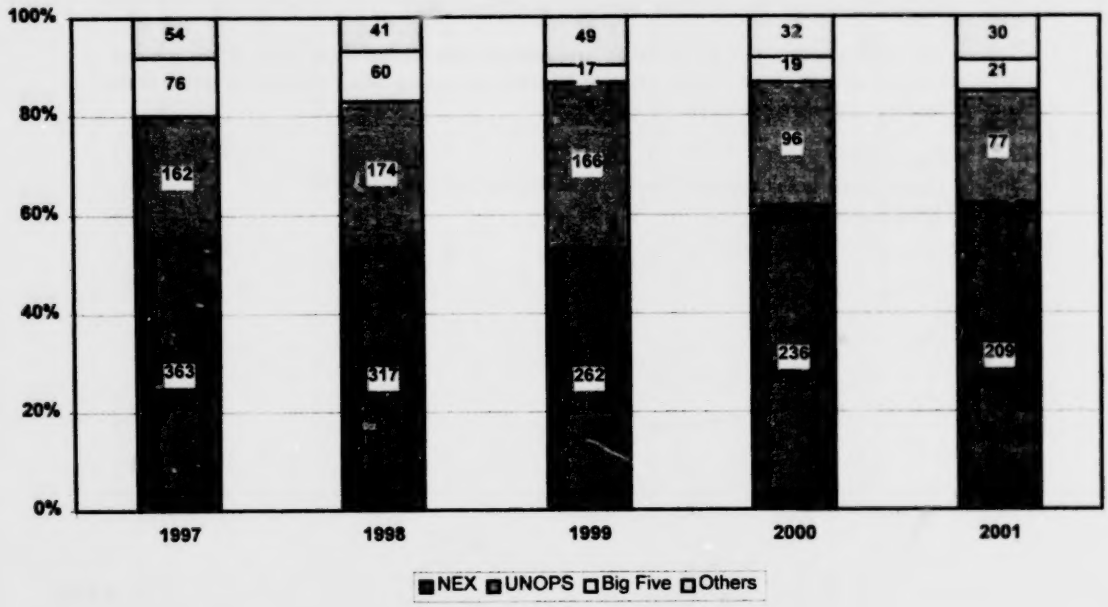
Figure I.2
Contributions for regular resources activities as at 31 December
(Millions of United States dollars)



Expenditure

11. Programme expenditure (including programme support) declined by $381 million, from $1.2 billion in 1998-1999 to $0.8 billion in 2000-2001. National execution remained the leading modality for the execution of projects, in keeping with UNDP policy. In the biennium 1998-1999, recipient countries executed $445.3 million, or 56.6 per cent, of programme expenditure for regular resources. This compared with $579.3 million, or 53.8 per cent, of programme expenditure for regular resources for the biennium 1998-1999 (see figure I.3).

Figure I.3
Expenditure by execution modality as at 31 December
(Millions of United States dollars)



Abbreviations: NEX, nationally executed expenditure; UNOPS, United Nations Office for Project Services.

12. There was a 39 per cent decrease in the United Nations system's share of programme expenditure, from $167 million in 1998-1999 to $102 million in 2000-2001. The marked decline in the share of projects executed by the "Big Five" (the United Nations Secretariat, the United Nations Industrial Development Organization, the Food and Agriculture Organization of the United Nations, the United Nations Educational, Scientific and Cultural Organization and the International Labour Organization) was due primarily to a transfer in 1999 of cumulative expenditure from regular resources incurred by UNDP as part of its activities under the United Nations Iraq oil-for-food programme to a designated trust fund under other resources.

13. Biennial support budget expenditure for 2001 was higher than that in 2000, representing to a large extent the normal trend of higher expenditures in the second year of the biennium. Gross support budget expenditure for the biennium 2000-2001 was $553 million, representing a marginal 1.5 per cent increase in expenditure over the $545 million expended in 1998-1999. The net 2000-2001 biennial support budget expenditure was $500 million, $18 million below the approved 2000-2001 net budget, which represents overall savings of 3.4 per cent. By appropriation group, 56 per cent (55 per cent in 1998-1999) was spent on programme support activities,

21 per cent on management and administration (23 per cent in 1998-1999) and 23 per cent on support to operational activities of the United Nations system (22 per cent in 1998-1999). In total, 63 per cent of expenditures were related to country offices, with the remaining 37 per cent attributed to headquarters locations, including the United Nations Volunteers and the Inter-Agency Procurement Services Office (IAPSO).

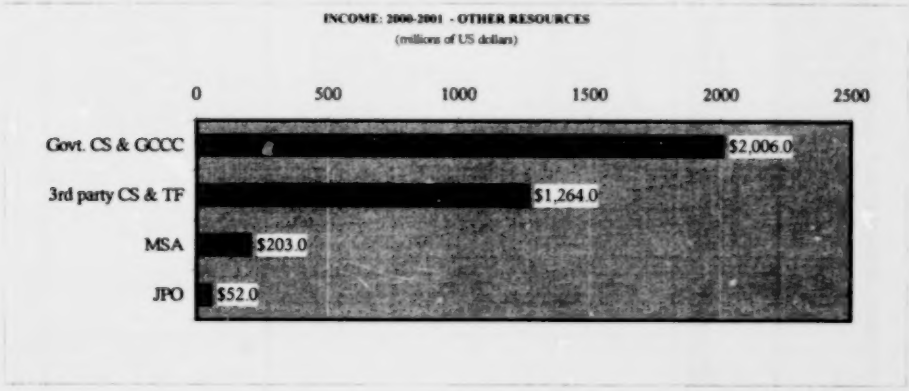
Unexpended resources

14. The decrease in voluntary contributions accompanied by a smaller decrease in programme/project delivery resulted in a decrease in unexpended regular resources to $45 million as at 31 December 2001, about 0.8 months of total expenditure. This compares to $107 million, about four months of expenditure, in the previous biennium. Of the $45 million in unexpended resources, $11.4 million has been set aside as a transitional reserve for information and communication technology.

Other resources activities

15. While other resources activities overall increased by 4.7 per cent, the increase was confined to trust fund activity. Contributions to trust funds increased by $282 million (46 per cent). Cost-sharing contributions decreased by $77 million (3 per cent). The increase in trust funds and the decrease in cost-sharing is attributable mainly to the Iraq Trust Fund, which was previously accounted for under cost-sharing (see figure I.4 and table I.2).

Figure I.4
Income for other resources activities for the biennium ended 31 December 2001
(Millions of United States dollars)



Abbreviations: CS, cost-sharing; GCCC, government cash counterpart contributions; TF, trust fund; MSA, management service agreements; JPO, Junior Professional Officers.

Table I.2

Other resources activities: statement of income and expenditure for the biennium ended 31 December

(Millions of United States dollars)

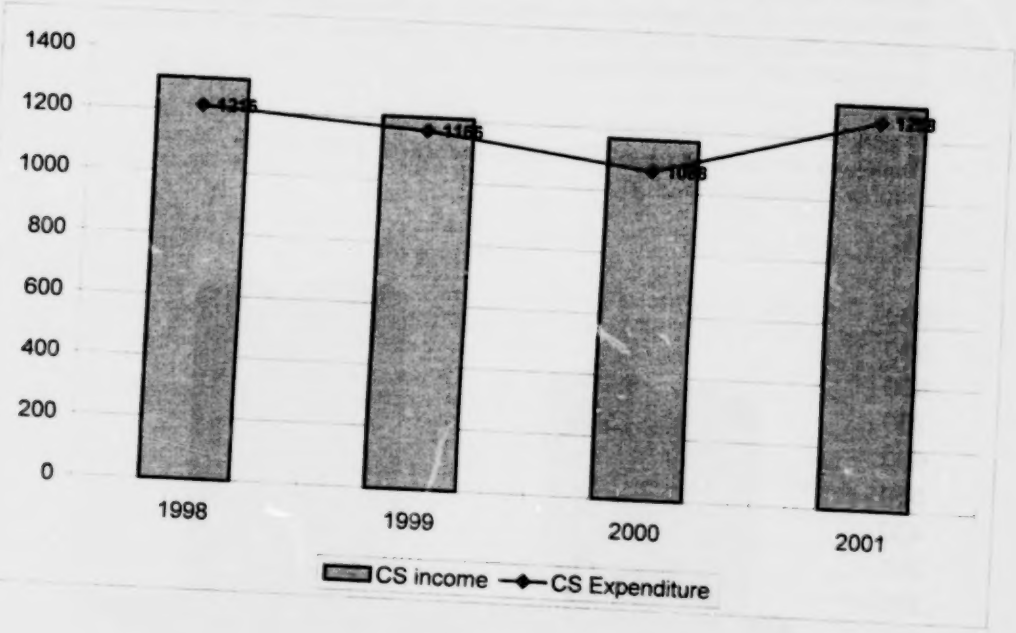
	UNDP cost sharing		Government cash counterpart contributions		Trust funds established by UNDP		Management service agreements		Junior Professional Officers		Reserve for Field Accommodation		Reimbursable Support Services		Special Activities		Eliminations		Total	
	2000-2001	1999-1998	2000-2001	1999-1998	2000-2001	1999-1998	2000-2001	1999-1998	2000-2001	1999-1998	2000-2001	1999-1998	2000-2001	1999-1998	2000-2001	1999-1998	2000-2001	1999-1998	2000-2001	1999-1998
INCOME																				
Contributions	2 375	2 453	9	11	887	604	230	283	52	53	-	-	-	-	18	8	-	-	3 571	3 411
Interest income	99	49	-	-	43	50	18	17	-	-	-	-	21	11	-	-	-	-	182	127
Other income	1	-	-	-	3	-	-	-	-	-	4	6	202	164	-	-	(86)	(87)	131	83
TOTAL INCOME	2 475	2 501	9	11	933	654	248	300	52	53	4	6	223	175	18	8	(86)	(87)	3 884	3 621
EXPENDITURE																				
Programme	2 217	2 270	9	7	829	642	231	306	46	50	-	-	-	-	-	-	-	-	3 333	3 275
Programme support: implementing agency	20	27	-	-	20	23	-	-	6	6	-	-	-	-	-	-	-	-	46	56
Programme support: resident coordinator	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	1	-	-	3	1
Biennial support budget: net	80	77	-	-	55	33	-	-	-	-	1	3	173	134	9	9	80	(87)	238	169
Other expenditure	-	-	-	-	4	3	-	-	-	-	1	-	-	-	-	-	-	-	5	3
TOTAL EXPENDITURE	2 317	2 374	9	7	908	701	231	306	52	56	2	3	173	134	12	10	80	(87)	3 625	3 504
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	158	127	-	4	25	(47)	17	(6)	-	(3)	2	3	50	41	6	(2)	-	-	259	117
Savings on obligations of prior biennium	-	-	-	-	-	-	-	-	-	-	-	-	3	1	-	-	-	-	3	1
Transfer (to) from reserves	-	-	-	-	-	(5)	(6)	(4)	-	-	-	(3)	(11)	-	-	-	-	-	(11)	
Refunds to donors and transfers (to)/from other funds: net	(10)	-	-	-	-	-	-	-	-	-	-	-	2	(54)	3	-	-	-	(11)	(66)
Fund balances, 1 January 1998	700	573	20	16	392	444	72	82	5	8	(6)	(6)	69	81	(1)	1	-	-	1 251	1 199
FUND BALANCES, 31 DECEMBER 1999	848	700	20	20	417	392	83	72	5	5	(4)	(6)	113	69	8	(1)	-	-	1 490	1 251

Cost-sharing

16. The cost-sharing funding modality remained the largest modality for UNDP, despite a reduction in total contributions of $77 million. Of the total $2,375 million received in 2000-2001, $377 million was attributable to third-party cost-sharing ($326 million in 1998-1999) and $1,997 million to recipient Governments ($2,125 million in 1998-1999) (see figure I.5).

17. Programme expenditure and support costs paid to implementing and executing agents in 2000-2001 decreased $61 million, to $2,237 million, compared with 1998-1999 ($2,298 million).

Figure I.5
Summary of cost-sharing income and expenditure as at 31 December
(Millions of United States dollars)

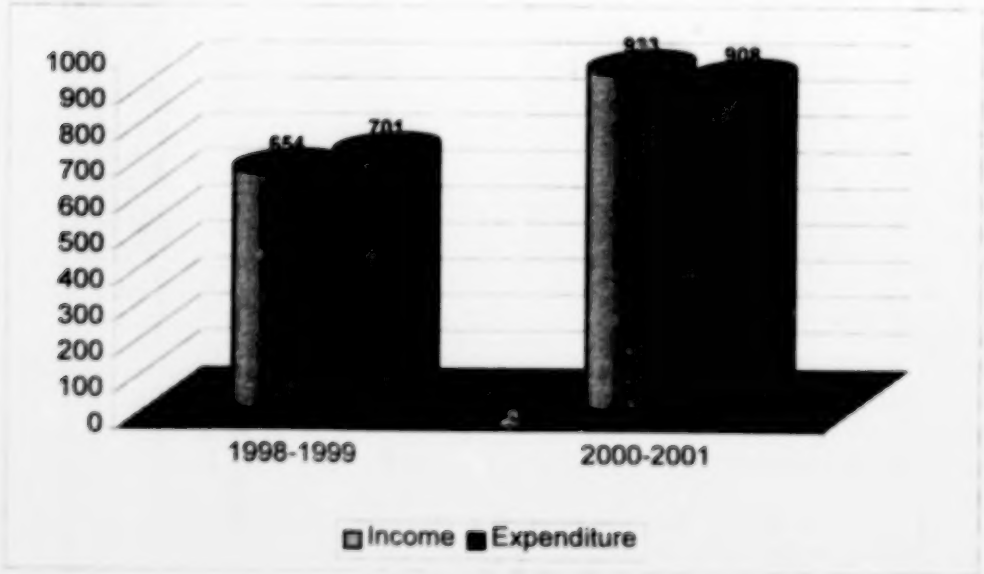


Trust funds established by the United Nations Development Programme

18. The detailed financial results of the trust funds are in schedules 5 to 5.3. A total of 86 trust funds and 69 sub-trust funds were established during the biennium 2000-2001. Six trust funds were closed during the biennium. In addition, 78 trust funds and 15 sub-trust funds funded by the Swedish International Development Cooperation were consolidated under one trust fund. The environmental sector and countries/territories in post-conflict circumstances received the most resources under the trust funds category.

19. Under trust funds dealing with the environment, in 2000-2001 the Global Environment Facility (GEF), the Montreal Protocol, Capacity 21 and the United Nations Office to Combat Desertification and Drought (UNSO) received $299 million — 34 per cent of total trust fund contributions. GEF alone received $233 million. Countries/territories in post-conflict circumstances, such as Iraq, Rwanda, Angola, the Palestine territory, etc., were also an important sector for trust fund activities. The UNDP Trust Fund for the Iraq programme received $186 million during 2000-2001. (See figure I.6.)

Figure I.6.
Summary of trust fund income and expenditure as at 31 December
(Millions of United States dollars)



Trust Fund to Combat Desertification and Drought

20. During the biennium, the UNDP Office to Combat Desertification and Drought provided technical and financial support to 60 countries worldwide for the development of national action programmes for the implementation of the United Nations Convention to Combat Desertification. Support was provided for the development of subregional action programmes in Africa and in Latin America and the Caribbean and for partnership and capacity-building to mobilize resources in Africa. Technical, strategic policy and capacity-building support was provided for the mainstreaming and integration of drylands issues into national development planning and other macroeconomic frameworks and for building and broadening the knowledge base on drylands issues.

21. The year 2001 brought marked changes in the operations and location of UNSO. At the end of June 2001, UNSO was relocated from New York to Nairobi as part of the Administrator's goals to bring services closer to programme countries. UNSO became operational at its new location in Nairobi on 1 July 2001 and continues to provide core global support for drylands development to affected countries worldwide. In early 2002, UNDP established the Drylands Development Centre in Nairobi. The Centre is one of the three Bureau for Development Policy thematic centres around the world. The new Centre incorporates UNSO as part of the Bureau's decentralized network of policy advisers. In line with the overall management changes within UNDP, the Drylands Development Centre now provides policy-level advice and programme support through country offices. The Centre has formulated a new integrated drylands development programme that is being piloted in 16 countries in Africa and the Arab States.

22. Total programme expenditure decreased from $9.9 million in 1998-1999 to $5 million in 2000-2001. Unexpended resources declined by 39 per cent, from $14.5 million to $8.8 million.

Trust Fund for the Global Environment Facility

23. Four formal GEF Council meetings were held during the spring and fall of 2000 and 2001. In addition, four informal intersessional GEF Council meetings were held in the summer and winter, during which the GEF corporate business plans and corporate management budgets, as well as the individual work programme allocation targets and implementing agency fees for UNDP/GEF, were reviewed and approved by the GEF Council for the fiscal years 2001 and 2002. The GEF secretariat also conducted a separate project implementation review exercise in 2000 and 2001 with respect to all GEF-funded full and medium-sized projects.

24. During the biennium 2000-2001, the Facility's approved work programmes, corporate management budgets and implementing agency fees amounted to a total of $434.3 million, 19 per cent higher than in the biennium 1998-1999 ($362 million). Total programme expenditure amounted to $200 million in 2000-2001 compared with $135 million in 1998-1999 (an increase of 48 per cent).

25. Income from replenishments received from the GEF trustee of the World Bank in 2000-2001 amounted to $223 million ($130 million in 1998-1999). In addition, GEF has received $11 million in cost-sharing and sub-trust fund projects and other contributions ($10 million in 1998-1999).

Multilateral Fund for the Implementation of the Montreal Protocol

26. The Multilateral Fund for the Implementation of the Montreal Protocol was established in 1991 with a mandate to implement national programmes to phase out chlorofluorocarbons, halons and other ozone-depleting substances. Four implementing agencies have been designated to implement this programme: UNDP, the United Nations Environment Programme, the United Nations Industrial Development Organization and the World Bank.

27. To achieve this objective, UNDP activities include:

(a) Formulation of national country programmes for the Montreal Protocol;

(b) Data surveys, national and sectoral plans (performance-based, multi-year programmes);

(c) Technical training and demonstration projects;

(d) Institutional strengthening and national capacity-building;

(e) Technology transfer investment projects.

28. Contributions received for 2000-2001 amounted to $61 million ($77 million in 1998-1999). Total programme expenditure amounted to $83 million in 2000-2001 ($70 million in 1998-1999).

Capacity 21 Trust Fund

29. A global evaluation of the pilot phase of Capacity 21 (1992-2001) was conducted by a team of independent consultants over the past year. The team was of the view that Capacity 21 had been successful, but that it had not reached enough countries or communities and should be expanded with a broader mandate. The team further recommended a framework for the way forward, which, through intense consultation within UNDP senior management, has been developed into a platform entitled Capacity 2015. Capacity 2015, the successor to Capacity 21, has a wider community-based approach, which is not limited to Agenda 21 but that will also develop synergies with other capacity-building initiatives, particularly poverty reduction strategies, multilateral environmental agreements and sustainable development strategies. It is anticipated that the Capacity 21 Trust Fund will be the financial instrument for Capacity 2015.

30. The total resources mobilized in 2000-2001 amounted to $2 million ($7 million in 1998-1999), a decrease of 71 per cent compared with 1998-1999. Total programme expenditure declined marginally in 2000-2001 compared with 1998-1999, at $15 million compared with $16 million.

UNDP Energy Account

31. Energy Account activities, which are financed from extrabudgetary resources, focus on FINESSE (financing energy services for small-scale energy users), which supports policy dialogue, institutional strengthening, regulatory framework and capacity development to provide technically feasible and economically viable renewable energy and energy efficiency services to residential, commercial and industrial energy users. These activities are designed to create the conditions and mechanisms for the credit sector to on-lend capital to small-scale energy users.

FINESSE is in line with the UNDP Initiative for Sustainable Energy, which is based on the fact that traditional approaches to energy will make energy a barrier to socio-economic development and are not sustainable. FINESSE activities are presently being implemented in selected countries in Asia, in partnership with the World Bank. Activities in the Southern African Development Community region have been completed, and follow-up will soon be initiated in partnership with the African Development Bank. The Energy Account received contributions of $1.1 million in 2000-2001 ($1.8 million in 1998-1999) against total expenditure of $1.7 million ($2.2 million in 1998-1999).

UNDP Fund for the Programme of Assistance to the Palestinian People

32. The programming strategy of the UNDP Fund for the Programme of Assistance to the Palestinian People is based on two objectives:

(a) To utilize the Fund's limited core resources in a catalytic manner so as to launch high-priority capacity-building programmes that are subsequently sustained and expanded largely through voluntary bilateral donor contributions;

(b) To ensure the sustainability of these capacity-building programmes through the utilization of joint implementation structures, ensuring the long-term viability and local accountability of the Palestinian counterparts.

33. Total income of $62 million was received in 2000-2001, compared with $69 million in 1998-1999, a decline of 9 per cent. Programme expenditure in 2000-2001 amounted to $58 million ($66 million in 1998-1999), making UNDP one of the largest implementers of donor-funded projects in the Occupied Palestinian Territory. Pursuant to the strategies and initiatives identified in its programme framework, during the biennium the Fund continued to increase its focus on the expansion of its advocacy role in the promotion of sustainable human development themes such as poverty elimination, sustainable livelihoods, gender in development and environmental management, as well as a number of infrastructure activities.

34. During 2000-2001, the Fund continued its activities launched in the prior biennium to enhance governance at the local, municipal and central levels of the Palestinian Authority, taking full advantage of the considerable local expertise available in the area.

UNDP Trust Fund for Rwanda

35. The UNDP Trust Fund for Rwanda was established in April 1995 to enhance programme activities in support of the Government of Rwanda's programme of national reconciliation, reintegration, socio-economic rehabilitation and recovery.

36. In February 1997, the direct execution modality was approved for the UNDP Rwanda country office. The civil war and the genocide of 1994 having reduced the capacity of the Government to formulate and execute projects, the rationale for authorizing the Rwanda country office to apply direct execution was to establish a UNDP-managed system to respond to the crisis quickly and effectively.

37. In general, projects in Rwanda directly executed by UNDP cover sectors that are critical in the country context, such as the reintegration and reinstallation of returnees, governance, justice and social development. Most projects are quick-

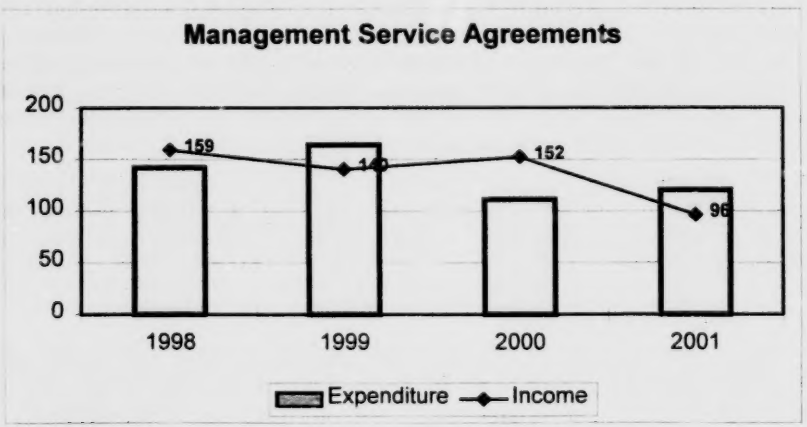
impact and of short duration. UNDP has directly executed 29 per cent of all approved projects and 37 per cent of Trust Fund projects.

38. In the biennium 2000-2001, the UNDP Trust Fund for Rwanda mobilized $9 million in contributions, compared with $32 million in 1998-1999. Programme expenditures in 2000-2001 were $29 million, compared with $47 million in 1998-1999. As at 31 May 2002, UNDP had mobilized through the Trust Fund mechanism an amount of $118 million since 1995.

Management service agreements

39. Management service agreements signed by UNDP and various donors (detailed in schedule 6.1) are executed by the United Nations Office of Project Services on behalf of UNDP. During the biennium, 63 new agreements were implemented, 13 agreements were financially completed and 32 were operationally completed. Total income declined 17 per cent in 2000-2001, to $248 million compared with $300 million in 1998-1999. Total expenditure declined by 25 per cent in 2000-2001, to $231 million) from $306 million in 1998-1999 (see figure I.7).

Figure I.7
Summary of income and expenditure for management service agreements as at 31 December
(Millions of United States dollars)



Junior Professional Officers programme

40. UNDP currently has 252 Junior Professional Officers in active service under this programme, financed by 19 countries. Of those, 203 are in country offices and 49 are in New York and at other headquarters locations. As at 31 December 1999 there were 274 Junior Professional Officers — 247 in country offices and 27 in New York and at other headquarters locations.

41. UNDP received $52 million in contributions for the programme in the biennium 2000-2001, compared with $53 million in 1998-1999. Total expenditure decreased to $52 million in 2000-2001 from $56 million in 1998-1999.

Reserve for field accommodation

42. With the support of the Executive Board, UNDP is moving towards the disposal of houses and offices it owns in the field and has in the past established provisions for asset write-downs as was deemed necessary.

43. Total income in the biennium 2000-2001 for the reserve for field accommodation activities, which consists almost entirely of rental income, amounted to $3.9 million, a drop of $1.6 million from the $5.5 million received in 1998-1999. The reserve for field accommodation activities recorded an overall surplus of $1.4 million in 2000-2001, compared with a surplus of $2.5 million in 1998-1999.

Funds established by the General Assembly and administered by the United Nations Development Programme

44. The funds established by the General Assembly are: UNCDF, UNV, UNIFEM, UNRFNRE and UNFSTD. Their financial results are detailed in schedules 7 to 7.3. UNCDF, UNV and UNIFEM remain the most active of the funds. In the biennium 2000-2001, their programme delivery represented 99.6 per cent of all funds' activities (99 per cent in 1998-1999). The combined income of the three funds likewise constituted 99.7 per cent of all income of the funds in 2000-2001 (98.7 per cent in 1998-1999).

United Nations Capital Development Fund

45. The United Nations Capital Development Fund's main goal is to help reduce poverty by piloting small-scale investments in two areas of concentration: local governance and microfinance. The Fund defines its particular approach as investing with the poor. This approach aims to build the productive capacity and self-reliance of poor communities by increasing their access to essential local infrastructure and services and by strengthening their influence over economic and social investments that directly affect their lives and livelihoods.

46. The priority of UNCDF for the biennium 2000-2001 was to implement the 1999 external evaluation recommendations endorsed by the UNDP Executive Board in September 1999 in its decision 99/22. UNCDF has successfully complied with the decision. Annual independent external evaluations of the Fund's work continue to indicate that its operations contribute significantly to the well-being of the poor while providing strong support for the UNCDF overall local development strategy. A significant achievement was the formalizing of partnership arrangements with

UNDP in the area of microfinance, and discussions are ongoing for similar arrangements in the area of local governance. UNCDF also realigned programmes and projects to its new policies, concentrated on reducing administrative costs and emphasized the importance of policy impact and replication with positive results by attracting other donors and Governments to upscale its pilot programmes.

47. Core contributions were $48 million in 2000-2001 compared with $58 million in 1998-1999. The 17 per cent decrease from 1998-1999 is attributable to adverse exchange rates as well as the withdrawal of one donor. It is important to note that this reduction took place despite the addition of four new Organisation for Economic Cooperation and Development/Development Assistance Committee countries to the list of UNCDF contributors. In 1998, 11 projects were approved for $36.3 million, and 13 projects were approved in 1999 for $56.3 million. While the 1998 targets were not reached because of emergency situations in some of the Fund's programme countries, the 1999 targets were surpassed, as project approvals from 1998 were brought forward into 1999. Four projects were approved in 2000 for $19.1 million, and five projects for $10.6 million were approved in 2001. Project expenditure (including programme support costs) for the biennium 2000-2001 was $78 million compared with $88 million in 1998-1999.

United Nations Volunteers

48. The biennium 2000-2001 marked an important turning point for the United Nations Volunteers. Building on three decades of experience and the contributions of some 30,000 global citizens who engaged as volunteers in United Nations activities for peace and development, UNV carried out its role as focal point for the International Year of Volunteers, 2001, while at the same time expanding its own programme activities. Through its role as focal point, UNV, and thus UNDP, has deepened its own understanding of the value of volunteerism as a development concept, the important economic contributions that it makes to society and its role in creating social cohesion by building trust and reciprocity among people.

49. The UNV programme, in terms of the number of volunteer assignments and individual volunteers involved, continued to grow in 2000 and 2001 with the financial equivalent of all activities in the broader United Nations system context surpassing $100 million in each of the years. Development cooperation activities remained the hallmark of UNV programme implementation. The trend towards humanitarian and emergency relief, peace-building and electoral support also continued to gain momentum.

50. In 2001, 5,090 volunteers carried out 5,432 assignments, representing the fifth consecutive record year for UNV. The volunteers represented 160 nationalities and contributed to development and peace-building efforts in 140 countries. The majority of the volunteers (66 per cent in 2001) were nationals of developing countries. This demonstrates the universality of the UNV programme, encompassing all regions of the world and providing a channel for South-South cooperation.

51. In the biennium 2000-2001, there were increases in funding to the UNV Special Voluntary Fund and for the fully funded, United Nations joint venture and cost-sharing modalities, and a slight reduction in contributions to sub-trust funds. Full-funding arrangements represent United Nations Volunteer assignments directly funded by donor Governments. United Nations joint ventures represent volunteers participating in United Nations peace operations. Total income in 2000-2001 was $64 million, an increase of $8 million from the $56 million recorded in the previous biennium.

52. Programme expenditures increased in 2000-2001 to $46.4 million from $43.7 million in 1998-1999, an increase of $2.7 million (6 per cent).

United Nations Development Fund for Women

53. The UNIFEM strategy and business plan, which covers the four-year period from 2000-2003, aimed to expand the Fund's donor base and to increase the amount of contributions flowing into UNIFEM. During the biennium 2000-2001, UNIFEM continued to focus its efforts on its three thematic areas and to refine the principles of results-based management.

54. Total contributions for UNIFEM increased by $10.1 million, or 22 per cent, to $54.6 million in the biennium 2000-2001 from $44.5 million in 1998-1999. Voluntary contributions increased by $7.2 million, and cost-sharing by $3.2 million, compensated by a decline in sub-trust funds of $0.3 million.

55. Programme expenditure increased by $12.2 million, or 43 per cent, to $40.7 million in the biennium 2000-2001 from $28.5 million in 1998-1999. Regular resources expenditure rose to $28 million in 2000-2001 from $20.3 million in 1998-1999, an increase of $7.7 million, or 38 per cent. Cost-sharing expenditure increased by $2.3 million, or 59 per cent, to $6.2 million in 2000-2001 from $3.9 million in 1998-1999. Sub-trust fund expenditure increased by $2.1 million, or 49 per cent, to $6.4 million from $4.3 million in 1998-1999.

56. Unexpended resources as at 31 December 2001 totalled $24.3 million, an increase of $5.2 million from the $19.1 million recorded as at 31 December 1999. The level of the operational reserve was reviewed in accordance with Executive Board decision 97/4 of January 1997, and the reserve was increased to $7.4 million as at 31 December 2001, up from $6.7 million as at 31 December 1999.

United Nations Revolving Fund for Natural Resources Exploration

57. As noted at its third regular session, in September 1999 (DP/1999/42), the Executive Board endorsed plans to phase out the activities of UNRFNRE by the end of 2000. The plans ensured that all existing projects and contractual commitments would be accomplished in a responsible manner.

58. No voluntary contributions were received in 2000-2001 ($1.7 million in 1998-1999). Total expenditure was $0.8 million in 2000-2001, compared with $2.2 million in 1998-1999. Unexpended resources as at 31 December 2001 amounted to $2.7 million.

United Nations Fund for Science and Technology for Development

59. As at 31 December 1999, the total unexpended resources of the Fund amounted to $0.9 million. UNDP has appointed an interim fund manager to oversee the closure of the Fund.

60. Should there be any residual funds, UNDP will inform the donors accordingly and obtain their agreement to transfer the remaining balance to the Bureau for Development Policy programme as cost-sharing contributions for information technology/development-related activities.

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the United Nations Development Programme (UNDP) and has audited the financial statements for the biennium ended 31 December 2001.

The Board's main findings are as follows:

(a) UNDP total expenditure from regular resources in the biennium 2000-2001 of $1.406 billion exceeded its total income of $1.315 billion by $91 million. This excess of expenditure over income, together with other adjustments and transfers, reduced the UNDP fund balance by $62 million, from $107 million to $45 million. In addition to regular funds, the operational reserve balance remains some $151.6 million. The combined balance will be sufficient to cover only about 3.5 months of total regular resources expenditure;

(b) The total expenditure for the funds administered by UNDP (mainly the United Nations Capital Development Fund) of $208.6 million exceeded its total income of $184.6 million by $24 million;

(c) The Board was unable to obtain adequate assurance that the value of non-expendable equipment was reasonable, as disclosed in the notes to the financial statements;

(d) Throughout 2000 and the first quarter of 2001, UNDP was unable to perform monthly bank reconciliations;

(e) The unidentified receipts at 31 December 2001, as disclosed in note 4 to the financial statements, were $10.1 million;

(f) UNDP could provide the Board with an age analysis for only $9.7 million (18 per cent) of receivables from regular resources, excluding United Nations agencies and trust funds;

(g) The present value of UNDP post-retirement health insurance liability as disclosed in the financial statements amounted to $256 million, of which 21 per cent had been accrued for. The balance was not funded (see para. 61);

(h) The Board remains concerned that the functioning of controls in respect of programme expenditure (nationally executed expenditure in particular) is not at an optimum level to ensure the effectiveness of procedures and to provide adequate assurance on the proper performance of the funds. The following main issues were noted:

(i) Reconciliations of United Nations agency-implemented expenditure were outstanding. For reconciliations received, differences amounting to $42.2 million were noted;

(ii) Inconsistent and inadequate audit scopes resulted in differing quality of audit reports in respect of nationally executed expenditure;

(iii) UNDP received audit certificates covering 64 per cent of nationally executed expenditure at the time of audit;

(iv) The impact of qualified nationally executed expenditure audit opinions was not quantified;

(v) The evaluation of nationally executed expenditure audits was delayed in some instances;

(vi) UNDP did not have a consolidated risk-based assessment model, and UNDP records of nationally executed expenditure audit costs were incomplete;

(i) Service-level agreements with the United Nations Office for Project Services and the United Nations Population Fund had not yet been finalized at the time of the audit, except for internal audit services;

(j) Of the 281 trust funds established by UNDP and disclosed in schedule 5 of the financial statements, 16 were in deficit, as at 31 December 2001, for an amount of $2.7 million;

(k) There was no segregation of duties between the following investment functions: investment management; credit risk monitoring; performance reporting; and investment accounting (see para. 152);

(l) Several control weaknesses existed in the general computer control environment.

The Board made recommendations to address its findings on the disclosure of relevant information; bank and investment reconciliations; follow-up on long-outstanding balances; nationally executed programme expenditure; proper custody and recording of non-expendable equipment; service-level agreements; proper segregation of duties regarding investments; follow-up of inactive trust funds; and improvement of general computer controls.

A list of the Board's main recommendations is provided in paragraph 11 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Development Programme (UNDP) for the biennium 2000-2001. The audit was conducted in accordance with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto and the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium 2000-2001 had been incurred for the purposes approved by the governing bodies; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of UNDP presented fairly the financial position as at 31 December 2001. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent the Board considered it necessary to form an opinion on the financial statements.

3. In addition to its audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations and Rules of the United Nations. The reviews concerned primarily the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNDP. The audit covered headquarters as well as 16 country offices in Botswana, Denmark, Ethiopia, India, Malaysia, Morocco, Mozambique, Nepal Paraguay, the Philippines, Swaziland, Turkey, the United Republic of Tanzania, Uruguay, Zambia and Zimbabwe.

4. The Board continued its practice of reporting the results of specific audits in management letters providing detailed observations and recommendations to management.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the present report were communicated to UNDP. UNDP has confirmed the facts on which the Board's observations and conclusions are based and provided explanations and answers to the Board's queries.

6. A summary of the Board's recommendations is contained in paragraph 11 below. Detailed findings are in paragraphs 13 to 193.

7. The General Assembly, in its resolution 52/212 B of 31 March 1998, accepted the recommendations of the Board of Auditors for improving the implementation of its recommendations approved by the Assembly subject to the provisions contained in the resolution. The Board's proposals, which were transmitted to the Assembly in a note by the Secretary-General (A/52/753, annex), included the following main elements:

(a) The need for specification of timetables for the implementation of recommendations;

(b) The disclosure of office-holders to be held accountable;

(c) The establishment of an effective mechanism to strengthen oversight in regard to the implementation of audit recommendations. Such a mechanism could be

in the form of either a special committee comprising senior officials or a focal point for audit and oversight matters.

8. The Board noted that UNDP had generally complied with those requirements.

1. Previous recommendations not fully implemented

9. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the action taken by UNDP to implement the recommendations made in its reports for the biennium ended 31 December 1997[1] and earlier and confirms that there were no outstanding matters.

10. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by UNDP to implement the recommendations made in its report for the period ended 31 December 1999[2]. Details of the action taken and the comments of the Board are set out in the annex to the present report.

2. Main recommendations

11. The Board recommends that UNDP:

(a) Monitor the financial position of the funds administered by it to ensure that it maintains healthy fund balances (paras. 16 and 23);

(b) (i) Review its headquarters non-expendable equipment inventory in a cost-effective manner to ensure that it provides realistic valuations; (ii) closely monitor the annual country office inventory returns; and (iii) implement stricter measures to ensure that all returns are received in time (para. 35);

(c) Intensify its efforts to develop and maintain a suitable inventory control system in compliance with the financial rules and other directives (para. 136);

(d) Reconcile all bank accounts and review material bank account reconciliations on a monthly basis (para. 38);

(e) Continue its efforts with regard to zero-balance bank accounts in order to further reduce the amount of unidentified receipts (para. 51);

(f) Regularly review a complete ageing of its accounts receivable with a view to collecting long-outstanding amounts (para. 60);

(g) Review the funding mechanism and targets for end-of-service benefits in conjunction with the United Nations and other funds and programmes (para. 62);

(h) Intensify its efforts to complete the review of outstanding advances provided to Governments and provide for amounts considered doubtful or write off all necessary amounts (para. 83);

(i) Ensure that standard terms of reference are agreed between the Government implementing partners and the country office as well as the nationally executed expenditure auditor and that the audit scope and the format of the audit report is consistent (para. 92);

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[1] *Official Records of the General Assembly, Fifty-third Session, Supplement No. 5A* (A/53/5/Add.1), chap. II.

[2] Ibid., *Fifty-fifth Session, Supplement No. 5A* (A/55/5/Add.1), chap. II.

(j) Actively follow up and investigate the reasons for the non-submission of country office action plans in respect of nationally executed expenditure audits (para. 100);

(k) Quantify the financial effect of the nationally executed expenditure audit qualifications (para. 105);

(l) (i) Include a condition that the audit must be completed within a specific time frame in the contract between the nationally executed expenditure auditor and the implementing partners; and (ii) perform a forward-planning exercise to ensure that sufficient resources are available to perform evaluations of nationally executed expenditure reports following the prescribed deadline (para. 109);

(m) Create a comprehensive database to facilitate the implementation of a risk-based assessment model for non-UNDP-implemented expenditure (para. 117);

(n) The service-level agreements for services provided by UNDP to the United Nations Population Fund and the United Nations Office for Project Services should be finalized and implemented as a matter of priority (para. 127);

(o) Follow up on all trust funds in deficit positions with a view to recovering the overexpenditures (para. 147);

(p) Implement proper segregation of duties between investment functions (para. 154).

12. The Board's other recommendations are shown in paragraphs 29, 40, 44, 46, 48, 54, 56, 69, 85, 87, 94, 97, 103, 111, 114, 120, 129, 132, 140, 144, 157, 159, 164, 166, 170, 173, 175, 188 and 192.

B. Financial issues

1. Financial overview

Regular resources

13. Total UNDP expenditure from regular resources in the biennium 2000-2001 of $1.406 billion exceeded its total income of $1.315 billion by $91 million. This excess of expenditure over income, together with other adjustments and transfers, reduced the UNDP fund balance by $62 million, from $107 million to $45 million. In the biennium 1998-1999, UNDP regular resources expenditure had exceeded its income by $188 million.

14. The excess occurred even though UNDP expenditure decreased, from $1.692 billion in 1998-1999 to $1.406 billion in 2000-2001. The primary reason for these deficits is the continuing reduction in voluntary contributions from member Governments, which declined by 10 per cent ($146 million), from $1.452 billion in 1998-1999 to $1.306 billion in 2000-2001. In 1998-1999, voluntary contributions declined by 11.3 per cent ($182 million). UNDP informed the Board that its regular resource balance had been deliberately brought down over the past three bienniums in order to respond to donor concerns over large surpluses of unutilized resources and in order to maximize the flow of resources to low-income countries during a period of falling voluntary contribution levels and unfavourable exchange rates. As

such, it is inevitable that UNDP would have expenditures from regular resources exceeding income received in the same period. While the biennium overall reflects a decline, UNDP believes that the year 2001 represents a turning point. Contributions to regular resources increased marginally, by $15.5 million, from 2000 to 2001, for a total of $660.7 million. UNDP expects this trend to continue.

15. The Board noted that the remaining regular resources balance of $45 million in the fund at 31 December 2001 was not even sufficient to cover one month's total regular resources expenditure. This fund balance, together with the regular resources operational reserve of $151.6 million as at 31 December 2001, will be sufficient only to cover about 3.5 months of total regular resources expenditure. The Board is concerned that if UNDP expenditure continues to exceed income by the same level as in 2000-2001, the fund balance will be insufficient to absorb the current levels of expenditure. UNDP informed the Board that early warning systems were in place whereby preventive action could be taken if a programme appeared to be in danger of exceeding its established target. In extreme cases where immediate action is not taken, the approval authority of the resident representative and/or programme manager would be revoked. There were no such cases in 2001.

16. **The Board recommends that UNDP monitor its financial position and continue to adopt measures to ensure that it maintains a healthy fund balance for its regular resources.**

Other resources

17. As shown in the overview statement, UNDP total income of $3.884 billion from other resources in 2000-2001 exceeded its total expenditure of $3.625 billion by $259 million. This excess of income over expenditure, together with other adjustments and transfers, increased the fund balance by $239 million, from $1.251 billion to $1.490 billion. In 1998-1999, UNDP other resources income had exceeded its expenditure by $115 million.

18. While the fund balance of other resources increased by 19 per cent overall, the increase was due mainly to the increase in contributions to trust funds. During 2000-2001, contributions to trust funds grew by $283 million to $887 million, while contributions to cost-sharing decreased by $77 million to $2.375 billion.

19. Total other resources expenditure increased as contributions increased. However, while total other resources income increased by 7 per cent in 2000-2001 compared with the previous biennium, total expenditure increased by only 3 per cent. UNDP transferred $10.6 million of the excess of income over expenditure to the operational reserve, following prescribed requirements.

20. The Board was pleased to note that UNDP had generated an increasing level of other resources income, which enabled it to further increase its programme expenditure with a view to achieving its objectives in its business plan.

Funds administered by UNDP

21. UNDP administers three active funds, the United Nations Volunteers, the United Nations Development Fund for Women (UNIFEM) and the United Nations Capital Development Fund. UNDP also administers two other inactive funds: the United Nations Revolving Fund for Natural Resources Exploration and the United Nations Fund for Science and Technology for Development.

22. **Total expenditure for the funds administered by UNDP in 2000-2001 of $208.6 million exceeded its total income of $184.6 million by $24 million.** This excess of expenditure over income, together with other adjustments and transfers, reduced the fund balance by $18 million, from $118 million to $100 million. In 1998-1999, the total expenditure of the funds administered by UNDP had exceeded income by $8.7 million. While the balance of funds administered by UNDP decreased by 15.5 per cent overall, this was confined to the United Nations Capital Development Fund. The total expenditure of $92 million for the Fund in 2000-2001 exceeded its total income of $61 million by $31 million. UNDP informed the Board that the reduction in contributions continued despite the addition of four new countries to the list of Fund contributors. The decrease is attributable to adverse exchange rates as well as one donor's discontinuing its contribution to the core fund. However, efforts are being made to intensively monitor the situation and to reduce expenditures commensurate with the level of income.

23. **The Board recommends that UNDP monitor the financial position of the funds administered by it to ensure that it maintains healthy fund balances.**

24. The combined income of the United Nations Capital Development Fund, the United Nations Volunteers and UNIFEM constituted 99.7 per cent of all income of the funds in 2000-2001 (98.7 per cent in 1998-1999). During the biennium 2000-2001, the United Nations Revolving Fund for Natural Resources Exploration received no contribution while the United Nations Fund for Science and Technology for Development received only voluntary contributions amounting to $16,000.

25. The Executive Board had decided to discontinue the United Nations Revolving Fund for Natural Resources Exploration and the United Nations Fund for Science and Technology for Development, and a work plan was established to close all financial activities of the funds. The follow-up actions were in the final stage and were expected to be completed by the end of June 2002.

2. United Nations system accounting standards

26. The Board assessed the extent to which the UNDP financial statements for the biennium ended 31 December 2001 conformed to the United Nations system accounting standards. The review indicated that the presentation of the financial statements was generally consistent with the standards except for the matters mentioned below.

Miscellaneous income from foreign exchange management activities

27. UNDP reported exchange gains of $12.5 million and exchange losses of $4.8 million on the revaluation of currencies as at 31 December 2001. UNDP also disclosed in schedule 1 of the financial statements net miscellaneous income from foreign exchange management activities of some $19.3 million in respect of hedging transactions entered into by UNDP during the biennium. UNDP made use of various hedge derivative instruments, including forward contracts and options to protect the value of non-dollar pledges. Although it is not the objective of UNDP to make a profit on such activities, UNDP benefited from gains during the biennium as the United States dollar appreciated. The success of the hedge programme is, however, very much dependent upon the accuracy of donor information in respect of both the amount and the timing of payments.

28. UNDP did not disclose its policy in respect of hedging against currency fluctuations in its summary of significant accounting policies (note 2 to the financial statements). Note 2 (g) deals only with the exchange rates to be used in translating other currencies. The Board also noted that UNDP did not disclose in a note to the financial statements details of its hedging activities. Paragraph 28 of the United Nations system accounting standards requires that where an organization enters into forward exchange contracts or other financial instruments for hedging against currency fluctuations, it should disclose in its financial statements the value of outstanding contracts, together with the basis used for measuring and reporting the transactions. As at 31 December 2001, UNDP did not have any outstanding hedging contracts in place. The international accounting standards provide useful guidance on the recognition, measurement and disclosure of financial assets and liabilities.

29. **The Board recommends that UNDP expand its current disclosure of foreign currency transactions and other financial instruments used for hedging against currency fluctuations and UNDP agreed. UNDP should also consider incorporating in its disclosure aspects regarding risks relating to foreign currency, as well as its financial risk-management objectives and policies.**

3. Valuation of non-expendable equipment

30. **The Board was unable to obtain adequate assurance that the value of non-expendable equipment was reasonable, as disclosed in the notes to the financial statements.** Non-expendable equipment is not capitalized in the accounts of UNDP but is only disclosed in the notes to the financial statements. The value of the Programme's non-expendable equipment as at 31 December 2001, as disclosed in note 3 (d) to the financial statements, was $25.1 million ($18.3 million in 1999) for headquarters and $69.4 million ($73.8 million in 1999) for country offices. (Refer also to comments made in section C.3 below.)

31. United Nations system accounting standard 49 requires United Nations organizations to disclose the value of non-expendable equipment, furniture and motor vehicles and the method of valuation in a note to the financial statements (actual cost or valuation).

32. UNDP derived the $25.1 million value of headquarters non-expendable equipment by applying standard costs to the results of a physical inventory verification performed in December 2001 by a private firm. The standard costs applied were the same as the standard costs used during the biennium 1998-1999 and were not always representative of the actual cost or value of the non-expendable equipment.

33. Different policies were used for the valuation of non-expendable equipment at headquarters and country offices. The value of headquarters non-expendable equipment was based on standard costs, while the actual historical cost of country office non-expendable equipment was disclosed.

34. UNDP was unable to provide the Board with an accurate value of country office non-expendable equipment as at 31 December 2001 because 56 (41 per cent) of the 137 country offices had not submitted their annual inventory returns to headquarters. This was in spite of the follow-up efforts made by UNDP to obtain the returns on time. The Board noted that the accuracy of the returns was not certified by the country offices' resident representatives.

35. **The Board recommends that UNDP: (a) review its headquarters non-expendable equipment inventory in a cost-effective manner to ensure that it provides realistic valuations in accordance with the United Nations system accounting standards; (b) closely monitor the annual country office inventory returns; and (c) implement stricter measures to ensure that all returns are received on time.**

36. UNDP informed the Board that it would establish in 2002 a standard cost method of evaluation for UNDP assets at headquarters where there is no supporting documentation owing to the age of the asset. All other assets at headquarters would be valued at cost. The assets in country offices would be valued at actual cost. UNDP confirmed that in 2002 it would follow up with all the country offices to resolve problems with outstanding inventory returns.

4. Bank and investment reconciliations

37. The Board reviewed the Programme's reconciliation of its 95 bank accounts and noted that **throughout calendar year 2000 and the first quarter of 2001, UNDP was unable to perform monthly bank reconciliations**. However, annual reconciliations were performed retroactively for all bank accounts as at 31 December 2000. UNDP started to perform monthly bank reconciliations from May 2001, but still experienced problems due in part to the sequencing of the Millenium (treasury system) and Integrated Management Information System (IMIS) systems. The treasury section could provide the Millenium data to the general accounting section only by the fifteenth day of the following month because of system constraints, which delayed the performance of the monthly reconciliations. Also, there was no evidence of review of the reconciliations at an appropriate level.

38. **The Board recommends that all bank accounts be reconciled and a formalized procedure be implemented for the review of material bank account reconciliations, and UNDP agreed.**

39. The December 2001 reconciliation of the main disbursement account was finalized only during April 2002, and at the time of audit, UNDP had not performed any monthly bank reconciliations for 2002 in respect of the account. The Board noted that long-outstanding items on the bank reconciliation relating to the IMIS conversion had been cleared. UNDP is to be commended for the substantial efforts made to clear the 2,763 unresolved items representing some $11.1 million as at 20 July 2000, as reported in the previous report of the Board for the biennium 1998-1999.[2] The Board noted, however, that long-outstanding items relating to the IMIS conversion amounting to $271,868 had been transferred from the bank reconciliation to accounts receivable.

40. **The Board recommends that UNDP follow up on long-outstanding items in receivables and thereafter consider writing off the irrecoverable amounts, and UNDP agreed.**

41. The Board also found that a misallocation of an amount of $10 million on 6 March 2001 still appeared on the bank reconciliation at 31 December 2001. This amount was incorrectly debited to the disbursement bank account instead of the contribution bank account. UNDP informed the Board that because of the focus on clearing items from earlier periods, prompt action on this item was overlooked, but that the adjustment was made by the Treasury Division in 2002.

42. The bank accounts shown in table II.1 were not reconciled during the biennium. As a result, unresolved differences were noted between the bank statements and the general ledger as at 31 December 2001. UNDP informed the Board that those accounts were overnight investment bank accounts that in future would be reflected as part of the investment schedule reported by the Treasury Division.

Table II.1
Unresolved differences
(In United States dollars)

Bank	*Bank statement balance*	*General ledger balance*	*Difference*
Bankers Trust Company	5 364 176	5 275 294	88 882
Bankers Trust Company	-	3 334 294	3 334 294
Bank of America	2 030 000	2 037 342	7 342

43. Creditanstalt Bankverein was reviewed and it was found that on 9 June 2001 an amount of $7 million had been recorded in the general ledger while an amount of $6.5 million had appeared on the bank statement. The difference remained unreconciled at year's end. The Board reviewed the summary of bank accounts and found that there was a line item called "Without bank account" totalling $2,348,000, of which $584,700 was not reconciled. UNDP informed the Board that it had analysed the unreconciled credit balance of $584,700 against the line item "Without bank account" and that corrections would be made in 2002.

44. **The Board recommends that UNDP expedite its follow-up of all outstanding reconciling items and unresolved differences in order to effect the appropriate adjusting entries in a timely manner.**

45. None of the six payroll bank accounts in the name of UNDP had been reconciled by UNDP on a monthly basis. Although the United Nations performed bank reconciliations for those accounts, UNDP did not review the reconciliations to ensure that they were reasonable and that they agreed with their general ledger. UNDP informed the Board that the Comptroller's Division, which has oversight for those accounts, was following up with the United Nations to secure copies of the 2001 bank reconciliations.

46. **The Board recommends that UNDP review payroll bank reconciliations.**

47. The Board noted that as at 3 May 2002, there was a difference of $13 million in the investment holdings for UNDP regular resources (DPVC) for the biennium 2000-2001 between the IMIS and Millenium systems. These were the result of unresolved differences carried forward from the biennium 1998-1999 as well as journal vouchers recorded on IMIS but not in the Millenium system. UNDP informed the Board that the ongoing reconciliation of differences between Millenium and IMIS had brought the unreconciled amount down from $13 million to $0.7 million as at 17 May 2002. The Board noted that during the biennium 2000-2001, UNDP had not performed regular reconciliations between the IMIS and Millenium systems. At the time of the audit, UNDP was in the process of reconciling the differences as at year's end.

48. **The Board recommends that efforts be continued to reconcile differences and to make the necessary adjustments to the financial records, and UNDP agreed. The Board further recommends that UNDP reconcile the Millenium system to the IMIS system on a monthly basis in order to expedite the follow-up of differences that may occur.**

5. Unidentified receipts

49. In follow-up to the Board's report on UNDP for the period ended 31 December 1999,[2] **the Board noted that the unidentified receipts as at 31 December 2001, as disclosed in note 4 to the financial statements, were $10.1 million.** The corresponding amounts for 1996-1997 and 1998-1999 were $13.4 million and $19.6 million respectively. Those receipts represented contributions and other amounts received in UNDP bank accounts where UNDP had not yet identified the source of the funds or their specific purpose. The Board had expressed its concern about the increase in unidentified receipts and the corresponding delay in applying those amounts for the purposes intended by the donors.

50. Since 2000, UNDP has implemented procedures to identify the source of amounts received in UNDP bank accounts. These procedures included the decentralization of United States dollar cost-sharing contributions to UNDP country offices' zero-balance bank accounts as well as the implementation of Internet banking facilities, where feasible, which enabled the country offices to view current-day banking transactions online. The successful implementation in the Latin American countries during 2000 was followed by targeted implementation in the Asian and Eastern European regions in 2001. It is the intention of the UNDP Treasury to introduce this practice to all eligible UNDP country offices.

51. **The Board recommends that UNDP continue its efforts with regard to the lack of information provided by donors when paying contributions in order to further reduce the amount of unidentified receipts, and UNDP agreed.**

6. Unliquidated obligations

52. The Board noted that **the Programme's unliquidated obligations increased by 10 per cent, to $70.8 million, in respect of its regular resources, by 6 per cent, to $193.8 million, in respect of other resources and by 10 per cent, to $5.8 million, in respect of funds administered by UNDP.** In aggregate, unliquidated obligations represented 5 per cent of total expenditure for the biennium 2000-2001, compared with 4.7 per cent in the biennium 1998-1999.

53. The UNDP Comptroller's Division provided all organizational units with a schedule detailing the unliquidated obligations of units according to their records. A total of 51 committing officers were required to certify the accuracy and completeness of outstanding obligations listed in schedules for return to the Comptroller's Division. As at the end of May 2002, 31 (61 per cent) of the certifications were outstanding. UNDP informed the Board that it would take appropriate action against those committing officers not responding in a timely manner.

54. **The Board recommends that UNDP ensure that all organizational units review unliquidated obligations on a monthly basis and provide the required certification of valid obligations in a timely manner and follow up on any**

differences in unliquidated obligations reported by organizational units to make the necessary adjustments to the financial records.

55. The United Nations Volunteers programme's unliquidated obligations in respect of its core budget, which was zero as at 31 December 1999, had increased to $527,705 as at 31 December 2001. These unliquidated obligations represent obligations created in the last quarter of 2001. An amount of $343,900 was obligated for the purchase of computer equipment based on an estimate of the purchase price. The respective purchase orders were placed only in the first quarter of 2002, and therefore those transactions were recorded in the incorrect accounting period, as no financial liability had occurred at the time that the obligation was created, but rather when the order was placed with the supplier. According to the United Nations Volunteers, this was due to delays in receiving quotations from the Inter-Agency Procurement Services Office (IAPSO).

56. **The Board recommends that obligations be recorded only on the basis of valid obligating documents and that they be recorded in the appropriate accounting period.**

57. The United Nations Volunteers considered that it was appropriate in this specific case to obligate the funds since it was clearly committed to making those purchases and had taken all necessary steps to do so before 31 December 2001 against a specific budget allocation identified and confirmed at the end of the third quarter.

7. Accounts receivable

58. The Programme's accounts receivable in respect of its regular resources increased by 58 per cent, from $33 million in the biennium 1998-1999 to $52 million in 2000-2001. The majority of this increase was due to the reclassification of operating fund accounts to current accounts for those United Nations agencies which are not executing agencies of UNDP. **UNDP could provide the Board with an ageing analysis for only $9.7 million (18 per cent) of those receivables, representing transactions that originated from headquarters.** Based on this analysis, amounts totalling $178,299 and $374,687 were outstanding for more than one year and two years respectively at 31 December 2001. UNDP expected that it would be able to provide a comprehensive ageing analysis once the planned implementation of its new system took place. In addition, the Board noted that for $1.3 million in respect of staff loaned to the United Nations and other United Nations agencies, receivables outstanding for longer than a year were not included in the ageing analysis.

59. UNDP reduced its other accounts receivable and deferred charges, as disclosed in note 11 to the financial statements, with a provision of $305,000. This provision had been established in 1987 to reduce the deficit in operating the fisheries vessel pool of the Food and Agriculture Organization of the United Nations (FAO) and represents 100 per cent of the receivables in UNDP accounts. UNDP has requested FAO to provide final details on the status of the project so that it can formally request write-off.

60. **The Board recommends that a complete ageing of accounts receivable be regularly reviewed with a view to collecting long-outstanding amounts, and UNDP agreed.**

8. End-of-service benefits

61. The Board noted that UNDP had made an accounting accrual of $54 million for the biennium ended 31 December 2001 in respect of post-retirement health insurance. This was the first biennium in which UNDP had accrued for that liability. In note 16, on unspent allocations and future commitments, UNDP disclosed that this had been done on the basis of an actuarial valuation, as at 1 January 2001, of after-service health insurance benefits covering all participants in UNDP and that the total present value of future benefits liability as at 1 January 2001 was $256 million. Therefore, the amount accrued represented some 21 per cent of the estimated liability calculated on the present value of future benefits.

62. **The Board recommends that UNDP, in conjunction with the United Nations and other funds and programmes, review the funding mechanism and targets for end-of-service benefits to provide for the full estimated liability.**

9. Write-off of losses of cash, receivables and property

63. During the biennium 2000-2001, UNDP informed the Board that it had written off $820,262 of receivables and property. An amount of $461,390 of this related to the sale of UNDP property in Haiti. Another $358,872 related to unrecoverable balances on fully funded arrangements managed by the United Nations Volunteers. An amount of $8.7 million was written off in the biennium 1998-1999. A further amount of $217,194 in respect of the biennium 2000-2001 was pending write-off.

10. Ex gratia payments

64. UNDP reported two ex gratia payments totalling $16,640 during the biennium 2000-2001 in respect of an old-age supplemental payment and a humanitarian payment.

C. Management issues

1. Programme expenditure

65. Programme expenditure is a non-administrative expenditure incurred through the implementation of projects. Programme expenditure in the biennium 2000-2001 amounted to $4.2 billion, compared with $4.5 billion in the previous biennium. Of this amount, $710.8 million was funded from regular resources, $3.3 billion from other resources and $164 million from funds administered by UNDP. Of the total of $4.2 billion, nationally executed expenditure implemented by Governments amounted to some $2.6 billion and that implemented by non-governmental organizations (NGOs) amounted to some $46.6 million. **In its review of programme expenditure, the Board noted the following main issues:**

(a) Reconciliations of United Nations agency-implemented expenditure were outstanding. For reconciliations received, $42.2 million in differences were noted;

(b) Inconsistent and inadequate audit scopes resulted in a different quality of audit reports in respect of nationally executed expenditure;

(c) As at the date of audit, UNDP received audit certificates covering 64 per cent of nationally executed expenditure;

(d) The impact of qualified nationally executed expenditure audit opinions was not quantified;

(e) The evaluation of nationally executed expenditure audits was delayed in some instances;

(f) UNDP did not have a consolidated risk-based assessment model;

(g) UNDP records of nationally executed expenditure audit costs were incomplete.

Programme expenditure incurred by United Nations executing agencies

66. In schedule 2 of the financial statements, UNDP reported expenditure of $486 million implemented by United Nations executing agencies on its behalf for the biennium 2000-2001, a decrease of 26 per cent compared with the corresponding figure for the previous biennium.

67. UNDP provided the agencies with monthly operating fund statements detailing the expenditure implemented by the agencies according to UNDP records. The agencies were required to provide UNDP with quarterly reconciliations of those statements to their own status of funds, on which their agencies' own auditors report at the close of the financial period. As at the end of May 2002, 13 of the 32 executing agencies had not provided UNDP with reconciliations of the expenditure incurred by them. For the reconciliations received, the Board noted differences of $42.2 million between the amounts reported by the executing agencies and the amounts recorded by UNDP. Differences between the UNDP balance and the agencies' status of funds where amounts were not supported by reconciliations amounted to $18.3 million net. Differences are attributable to timing since, in many instances, the agencies have not accounted for these differences in inter-office vouchers.

68. UNDP is to be commended for its efforts during the biennium 2000-2001 in resolving long-outstanding differences between the amounts recorded and those reported by the executing agencies amounting to $98 million.

69. **However, the Board recommends that UNDP intensify its efforts to clear the remaining long-outstanding differences with executing agencies and make the necessary adjustments to the records. Also, UNDP should follow up in a timely manner on any differences in the quarterly reconciliations and apply a consistent basis of comparison.**

70. UNDP informed the Board it had issued reminders for all outstanding reconciliations and that it would also require all executing agencies to submit quarterly reconciliations by the twentieth day of the month following the end of quarter and to ensure that differences were addressed and resolved in a timely manner.

Programme expenditure incurred by Governments

Background

71. UNDP provides funds directly to Governments and non-governmental organizations as one of the forms of project implementation. The expenditure incurred by Governments is referred to as nationally executed expenditure, and expenditure incurred by NGOs is referred to as NGO-executed expenditure. The following definition of nationally executed expenditure was adopted by the Consultative Committee on Programme and Operational Questions for inclusion in the Operational Activities Reference Manual at its thirteenth session, held in New York in September 1998 (ACC/1998/13, para. 9):

> "National execution includes the gradual transfer of all responsibilities to national entities, including procurement, recruitment, accounting, reporting, monitoring and evaluation. The responsibility and management of financial accounting, recruitment and procurement may vary depending on local conditions. In keeping with the objectives of sustainability and ownership, financial management by national entities through the provision of financial assistance for specific activities is encouraged. Depending on the local situation in each programme country, national execution might entail cash advances to national authorities or NGOs, alternatively reimbursing actual expenditures in other cases. This would not detract from the separate responsibility of United Nations entities to be accountable to their governing bodies or funding sources for the proper reporting of expenditure and appropriate monitoring and evaluation." (United Nations System High-level Committee on Programmes Operating Activities Reference Manual, sect. A.4, para. 28.)

72. UNDP exercises control and accountability for nationally executed expenditure by implementing procedures at the headquarters and the country office levels. One of the main features of the nationally executed expenditure modality is that funds are advanced to executing partners and the subsequent expenditure is recorded only when such advances are cleared through the receipt of supporting documentation from the executing partner and country offices.

73. The UNDP financial statements include details of outstanding advances made to executing agencies as well as the expenditure incurred on the Programme's behalf by the agencies. The expenditure incurred on the Programme's behalf by executing agencies and by Governments is based on annual expenditure statements certified and submitted to UNDP each year. These statements are in turn based on quarterly financial reports prepared by implementing partners. For each nationally executed project, UNDP prepares a combined delivery report that indicates the expenditure incurred during the year. It sends the report to the respective Governments for certification by their independent auditors, whose audit reports are sent to UNDP.

74. The UNDP financial statements for the biennium ended 31 December 1999 were qualified by the Board of Auditors. The basis of the qualification was a lack of assurance owing to a lack of receipt of audit reports from government implementing partners for programme expenditure of $723 million. The amount reflected an increase of $203 million, compared with the scope restriction of $520 million for the biennium 1996-1997. Nationally executed expenditure for the biennium 2000-2001

amounted to approximately $2.6 billion (excluding United Nations agency and NGO implementing partners).

75. The Advisory Committee on Administrative and Budgetary Questions expressed its concern with regard to the level of audit coverage of programme expenditure, and further expressed its concern that the Board of Auditors had qualified the UNDP financial statements for the past three bienniums (A/55/487). Consequently, in its resolution 55/220 A of 23 December 2000, the General Assembly decided to defer action on the financial statements of UNDP for the period ended 31 December 1999 pending certification by the Board of Auditors that satisfactory progress was being made to remove the reasons for the qualified opinions.

76. In response to the action taken by the General Assembly, UNDP drew up a plan that included the following measures to address the reasons that led to the qualified audit opinion:

(a) Continued efforts to obtain audit reports in respect of the biennium 1998-1999. The level of coverage had increased from 31 per cent to 75 per cent at the time of the audit;

(b) Setting targets to secure audit reports covering up to 95 per cent of expenditures incurred through Governments and non-governmental organizations. In the biennium 2000-2001, UNDP required 3,306 projects out of a total of 7,339 to be audited;

(c) Proposals to revise a financial rule and related internal directives to require an increased level of audit coverage;

(d) More intensive focus by senior management on poorly managed projects and those with large expenditures;

(e) Closer monitoring and evaluation of audit plans and their timely submission;

(f) Increased use of private firms where government auditors do not have the capacity to conduct audits.

77. In its resolution 55/220 B of 12 April 2001, the General Assembly took note of the comments of the Board that it was satisfied that, in principal, the plans developed by UNDP provided an adequate basis for improving the extent to which nationally executed expenditure was covered by audit reports (A/55/846, para. 4). The Assembly accepted the audited financial statements, but requested UNDP to adhere to the plan to correct deficiencies leading to the qualified audit opinion.

Approach and objective

78. The nationally executed expenditure audit reports provide a form of assurance that funds advanced to executing agencies and Governments and reported in the UNDP financial statements have been properly utilized for the purpose for which they were intended. Therefore, nationally executed expenditure audit reports form part of the internal control structure of UNDP.

79. The Board noted that in addition to the nationally executed expenditure audit reports required from implementing partners, UNDP had regulations, instructions and directives in place that could support its responsibility to be accountable to the

General Assembly. The regulations are to ensure that expenditures were valid, properly incurred, accurately recorded and completely accounted for. The extent of control assurance is, however, dependent on the level of compliance with the requirements and the effective functioning of the controls.

80. The Board separated the procedures aimed at ensuring better control and compliance with authorities from the procedures that affect the accuracy of expenditures recorded in the accounts of UNDP. The outcome of the assessment of the former had an impact on the Board's opinion on compliance with regulations and legislative authorities and its comments on internal controls, while that on the latter had an impact on the Board's opinion on the UNDP financial statements.

Advances: operating funds provided to Governments

81. In its report on the UNDP financial statements for the biennium 1996-1997,[1] the Board expressed concern regarding the level of advances to Governments (some $11.8 million) that were outstanding for more than a year. During the biennium 1998-1999, UNDP reviewed many of the advances and wrote off $4.1 million, identifying an amount of $4.7 million that required further investigation. UNDP did not write off any advances during 2000-2001 and, as at 31 December 2001, the advances outstanding for more than a year had increased to $15.1 million. *Accordingly, UNDP did not have assurance that funds of up to* $15.1 million that had been advanced to implementing government partners had been effectively utilized for the purpose intended.

82. The Board took note of the current process under way at UNDP headquarters to follow up on those advances on a case-by-case basis. According to UNDP, this follow-up process was, at year's-end, approximately 50 per cent completed in respect of the total number of advances made to Governments (not 50 per cent of the total amount of advances). UNDP indicated that there would be a need to write off some of those advances, although it was unable to quantify the amount. UNDP also did not make a provision in its financial statements for the possible write-offs. UNDP informed the Board that outstanding advances had been identified as one of the key areas that required further analysis and that it planned to assign additional resources to this key task in 2002.

83. **The Board recommends that efforts be intensified to complete the review of outstanding advances provided to Governments and non-governmental organizations and to provide for amounts considered doubtful or to write off all necessary amounts; UNDP agreed.**

Appointment of nationally executed expenditure auditors

84. The UNDP Programming Manual (section 6.8.3) indicates that auditors of nationally executed expenditure should be appointed by implementing partners. However, UNDP headquarters did not monitor the appointments of such auditors to evaluate whether they (especially in the national audit office) were made by the implementing partners, which was the preferred option. The Board noted that nationally executed expenditure auditors were appointed by both implementing partners and the UNDP country offices.

85. **The Board recommends that details of the appointment of nationally executed expenditure auditors be included in their monitoring tools and that**

such details be used to verify compliance with the UNDP Programming Manual; UNDP agreed.

86. The Board noted that there was no evidence that any internal control procedures had been formulated and implemented to ensure that the nationally executed expenditure auditors appointed had the required integrity, technical competence and experience. Checking of the appointment of nationally executed expenditure auditors remained the responsibility of the country office and the executing partner. However, the quality of nationally executed expenditure audit reports differed, as noted by the Office of Audit and Performance Review. In order to promote consistency in the quality of audits of nationally executed expenditure, the Board was of the opinion that UNDP headquarters should play a more active role in providing guidance in the selection of auditors of nationally executed expenditure.

87. **The Board recommends that specific procedures and predetermined criteria be included in its directives on nationally executed expenditure to ensure that auditors of the required independence, integrity and technical competence are appointed and that the compliance with those directives is monitored by the country office. UNDP agreed with the recommendation.**

Terms of reference, audit scope and format of audit reports

88. Section 6.8 of the UNDP Programming Manual sets out a standard minimum objective and scope for nationally executed expenditure audits, which includes: purpose of the audit; audit scope; audit certification; methodology and timetable; sources of information; and the audit report. These matters should form part of the contract or agreement with the auditor. Furthermore, internal control weaknesses are required to be communicated to the implementing partners in the form of management letters or draft reports. The audit report should contain comments, recommendations and an opinion on each of the aspects of the audit scope as well as a general opinion on programme management.

89. The UNDP Mozambique country office had a total of 58 projects with total project expenditure as at 31 December 2000 of approximately $18.1 million. One commercial audit firm audited all the nationally executed expenditure projects. The audit scope for those audits was not in accordance with the Programming Manual. In the case of nationally executed expenditure projects in Zambia, with total project expenditure of approximately $3,042,737 for the year 2000, audit reports did not refer to the scope of the audit. Furthermore, the Board noted that the Zambia country office had not received management letters detailing findings for comments and discussion.

90. It is also best practice to include the status of implementation of the prior-year audit recommendations in the current audit report. None of the projects audited in our sample had covered the status of prior-year recommendations.

91. Inadequate and inconsistent audit scopes resulted in reports of varying quality The resulting inadequate coverage and incomparable information did not facilitate the monitoring and evaluation process. UNDP subsequently advised the Board that sample terms of reference had recently been added to the Office of Audit and Performance Review nationally executed expenditure audit web site, which was accessible to all country offices.

92. **The Board recommends that UNDP: (a) ensure that standard terms of reference are agreed upon by the government implementing partners and the country office as well as the nationally executed expenditure auditor and that the scope and format of the audit report is consistent; and (b) compile a mandatory checklist of the standard requirements to assist country offices in adhering to the requirements of the Programming Manual. UNDP agreed with the recommendations.**

93. The Board noted that for the six nationally executed projects totalling $4.7 million, the project agreements evaluated did not contain clauses providing that the nationally executed expenditure projects were subject to audit, although the audits were implemented. Including the clause that the projects would be audited or subject to audit would promote the implementing partners' understanding and acceptance of the requirements for the nationally executed expenditure audit process.

94. **The Board recommends that audit clauses be included in project agreements and that their implementation be monitored; UNDP agreed.**

Plans for nationally executed expenditure audit coverage

95. Monitoring the submission of plans for audit coverage from country offices was one of the actions that UNDP identified for improving the audit coverage of nationally executed expenditure. The Board noted the significant efforts made by UNDP headquarters in this regard. For the biennium 2000-2001, UNDP headquarters sent instructions to country offices to significantly increase the level of audit coverage. The instructions included requirements that country offices include projects with expenditures of over $100,000 in their audit plans and submit the plans by November of the period subject to audit. Audit plans were assessed by comparing the list of projects submitted by the country office to the list of project expenditures maintained at headquarters.

96. Furthermore, the status and timeliness of audit plans submitted as detailed on the monitoring database was encouraging, as a significant number of plans were submitted. Based on the database compiled by UNDP headquarters, a total of 1,661 projects for 2000 and 1,645 for 2001 were planned to be audited. In certain instances there were delays in the submission of audit plans by country offices of up to seven months.

97. **The Board recommends that special attention be devoted to country offices that have not submitted plans for audit on time by requesting such offices to commence the planning exercise well in advance of the prescribed deadline, and that UNDP headquarters intensify its follow-up action with respect to country offices that have defaulted in adhering to requirements. UNDP agreed with the recommendations.**

Country office action plans

98. The UNDP Programming Manual, in section 6.8.3, paragraph 10, requires nationally executed expenditure audit reports to be followed up. The country office action plan is based on the findings of the audit reports. The action plans are an important tool in the monitoring and evaluation of projects, as matters relating to project activity, delivery and compliance with relevant laws and regulations are reported by nationally executed expenditure auditors. The review is also important

in that it provides a report to UNDP headquarters as to how the country office and implementing partner plan to resolve matters raised by the nationally executed expenditure auditors as well as the progress made in that regard.

99. The Board noted that of the randomly selected projects for 2000, there was no evidence of country office action plans to address the contents of the nationally executed expenditure audit reports for four projects totalling $52 million. In the case of the Argentina country office, actions were discussed and implemented, although no formal structured plan was developed for each project.

100. **The Board recommends that the reasons for the non-submission of country office action plans be actively followed up and investigated, and UNDP agreed.**

Audit coverage of nationally executed expenditure

101. The Board noted the high audit coverage of nationally executed expenditure achieved by UNDP for 2000 (see table II.2). According to the database provided by UNDP, an amount of approximately $2.6 billion (excluding United Nations agency-implemented projects) was incurred as nationally executed expenditure. UNDP headquarters planned to have approximately $2.3 billion (89 per cent) of this expenditure subjected to nationally executed expenditure audits. The Board noted that the planned coverage was below the intended 95 per cent that was included in the UNDP action plan. UNDP succeeded in auditing approximately $1.647 billion (2,616 projects) in nationally executed expenditure during the biennium 2000-2001. The combined audit coverage of 64 per cent achieved for the biennium at the time of the audit is a marked improvement when compared with the actual coverage of 51 per cent achieved in the biennium 1998-1999. At the time of the audit, UNDP had managed to increase its coverage of the biennium 1998-1999 expenditures to a level of 75 per cent.

Table II.2
Audit coverage of nationally executed expenditure
(In United States dollars)

	2000	*2001*	*Total*
Actual nationally executed expenditure	1.3 billion	1.3 billion	2.6 billion
Planned coverage	1.1 billion (89 per cent)	1.2 billion (92 per cent)	2.3 billion (88 per cent)
Actual coverage	1.058 billion (81 per cent)	0.589 billion (45 per cent)	1.647 billion (64 per cent)

102. The audit plan database, in certain instances, did not include the actual expenditure figures, as the plan was compiled before the end of the fourth quarter of the year under scrutiny. Therefore, projected figures for the fourth quarter were used in the audit planning exercise but were not updated for material differences. Hence, actual figures may differ significantly from planned figures in certain instances, thereby affecting the level of planned coverage. From the sample of year-2000 projects selected, a difference of $11.5 million was found for five countries totalling planned expenditure of $17.8 million, according to the database.

103. **In order to ensure suitable audit coverage of nationally executed expenditure audits, the Board recommends that UNDP actively follow up on the final expenditure figures to update the level of planned coverage, and UNDP agreed. Furthermore, planned coverage should be based on criteria established by UNDP.**

104. The Board further noted that the database used to monitor the nationally executed expenditure audits did not specifically indicate which audit reports were qualified and the impact of such qualifications in quantifiable terms. The database did indicate the audit reports that were without "scope restrictions". It was apparent, from the observations made by the Office of Audit and Performance Review, that there could well be a number of qualified nationally executed expenditure audit opinions. The qualified audit opinions affect the ability of UNDP to obtain assurance as to the performance of the funds; that is, that funds have been used properly for the purpose intended. The Board was pleased to note that the Office of Audit and Performance Review did document significant findings concerning the use of the funds for the purposes intended or their misuse.

105. **The Board recommends that the financial effect of the nationally executed expenditure audit qualifications be quantified and that UNDP evaluate such qualifications against the action plans for reasonableness. UNDP agreed with the recommendations.**

Evaluation of nationally executed expenditure audit reports

106. Out of a total of 1,661 expected reports for the year 2000, only 383 (23 per cent) had been received by the 30 April 2001 due date, mainly because of the late completion of the audits by the nationally executed expenditure auditors. The Board noted the improvement made by UNDP headquarters in the evaluation and oversight of nationally executed expenditure audit reports, such as posting on the Office of Audit and Performance Review web site the assessment of the Office, the global nationally executed expenditure audit plan and the list of audit reports received. The Office of Audit and Performance Review assessed and scored country offices on four aspects of the audit exercise, namely, the timeliness of the audit reports, the adequacy of plan, the adequacy of the audit scope and adequacy of country office action plans.

107. The assessments were maintained in a database to facilitate comparisons across country offices. Out of the 1,586 nationally executed expenditure audit reports received for 2000, UNDP evaluated some 1,124 (71 per cent). However, for 2001 it was still too early to assess the percentage of audits evaluated, partly because at the time of the Board's audit, only 15 days had passed since the deadline for the submission for audit reports.

108. However, the Board noted delays in the evaluation of the nationally executed expenditure reports for 2000 by UNDP headquarters of up to six months. The objective of the audit is not only to detect problems and non-compliance with regulations, but also to apply preventive measures that must be identified and reported in a timely manner. Therefore, the timely evaluation of nationally executed expenditure audit reports is important to ensure that country offices take prompt and appropriate corrective action in response to audit findings.

109. **The Board recommends that: (a) more guidance and assistance be provided to country offices in the planning and administration of the nationally executed expenditure audits; (b) a condition that the audit must be completed within a specific time frame be included in the contract between the nationally executed expenditure auditor and the implementing partners in order that the country office might meet the 30 April deadline; and (c) a forward-planning exercise be drawn up to ensure that sufficient resources are available to perform evaluations of nationally executed expenditure reports following the prescribed deadline. UNDP agreed with the recommendations.**

110. Nationally executed expenditure auditors are required to sign the combined delivery report prepared by the country office that is submitted to UNDP headquarters for review. In a specific case, the Board noted that the total project expenditure amount as per the certified combined delivery report was nil, while the programme expenditure as per the nationally executed expenditure database and the Project Financial Management System reflected that the correct amount was in fact $26.8 million. This difference was not initially detected by the Office of Audit and Performance Review in its review. The country office and the applicable auditor were following up the difference.

111. **The Board recommends that UNDP intensify its efforts to reconcile the amount, and UNDP agreed.**

112. The Board reviewed the compensating controls for selected projects that were not subjected to nationally executed expenditure audits as a means of testing the controls aimed at ensuring that funds were incurred for the purposes intended, thus promoting accountability. Approximately 1,972 projects (54 per cent of the total), representing some $205 million (16 per cent of nationally executed expenditure), were not subject to audit in 2000. For 2001, approximately 2,061 projects (56 per cent of total), representing some $725 million (56 per cent of nationally executed expenditure), were not subject to audit.

113. The Board selected projects at country offices to evaluate the effectiveness of such procedures such as tripartite reviews and project field visits in compliance with UNDP directives. In general, there were no significant findings of non-compliance, although some deviations were noted and discussed with country office management. UNDP country offices were not required to provide headquarters with information on the projects not subjected to nationally executed expenditure audit. UNDP has started to implement such an approach, but agreed with the Board that the practice should be expanded and formalized.

114. **The Board recommends that country offices provide to UNDP headquarters information on their evaluations of projects not subjected to nationally executed expenditure audit and that headquarters, in turn, utilize such information as a component for risk-based assessments.**

Risk-based nationally executed expenditure database

115. UNDP headquarters maintained data relating to various aspects of the nationally executed expenditure audit exercise on separate databases. However, UNDP headquarters did not actively utilize the existing data to provide it with a trend analysis or a history of projects or country offices as a means of assessing

project risk and identifying those projects/country offices that were problematic and that therefore warranted further attention and guidance from headquarters.

116. The Board is of the opinion that combining existing data with further data, such as the results of the audit quantification of qualifications noted in nationally executed expenditure reports and any form of alternative assurances received, into one comprehensive database would provide a useful tool for UNDP headquarters to identify problematic projects and offices. UNDP could then assess what further measures should be adopted to negate any risks identified as a means of obtaining adequate assurance that funds were utilized for the purposes intended. The consolidated information could also be used by the Office of Audit and Performance Review as a tool for enhancing country office assessments. In future, a risk-based model may enable UNDP to establish requirements for nationally executed expenditure audits based on risk rather than quantitative thresholds only.

117. **The Board recommends that a comprehensive database be created to facilitate the implementation of a risk-based assessment model, and UNDP agreed.**

118. UNDP informed the Board that it hoped to have this comprehensive database in place for the 2003 audit exercise. Headquarters will take responsibility for developing the model, while country offices will take responsibility for the application of the model.

Audit costs for nationally executed expenditure audits

119. In accordance with section 6.8.3, paragraph 5, of the UNDP Programming Manual, the cost of an audit should be borne by the implementing partner. Only in exceptional cases should the cost be provided for against the project, and even then the resident representative should specifically approve it. It is apparent that in most cases UNDP covers the cost of the nationally executed expenditure audits from project funds. The UNDP database indicates a cost of nationally executed expenditure audits amounting to some $1.5 million for 2000. However, out of a total of 146 nationally executed expenditure audits by private firms, only 76 audits on the database indicated the total estimated cost. The costs for the year 2001 were not available at the time of the audit.

120. **The Board recommends that UNDP: (a) update the policy in line with the UNDP Programming Manual with regard to the funding of audit costs; (b) maintain data relating to audit costs for each project on the consolidated database; and (c) have country offices analyse the audit costs to determine whether the benefit of the audit of the project exceeds the cost and its relation to the project expenditure as well as risk assigned to the project.**

Conclusion

121. The Board has noted the significant efforts made by UNDP leading to improvements in the coverage of programme expenditure to validate that funds have been utilized for the intended purpose, especially with regard to nationally executed expenditure. However, **the Board remains concerned that the functioning of controls is not at an optimum level to ensure the effectiveness of procedures and to obtain adequate assurance of the proper performance of the funds.** While this limitation does not affect the fair presentation of the financial statements,

UNDP should implement measures, in a cost-effective manner, to address accountability and the proper utilization of funds implemented as nationally executed programme expenditure.

2. Shared services

Headquarters service-level agreements

122. UNDP headquarters provides reimbursable services to the United Nations Population Fund (UNFPA) and the United Nations Office for Project Services (UNOPS) in the following areas: human resources, finance and administration, budgets, information technology, internal audit and external affairs. A signed service-level agreement existed only for internal audit services.

123. The provision of services by UNDP to UNFPA and UNOPS in the biennium 2000-2001 was still based on the existing service arrangements for the biennium 1996-1997. However, because of the changing business environments, organizational changes and shortcomings, there was often controversy regarding the quality and type of services provided or to be provided by UNDP, as well as on the reimbursement to UNDP for the services provided.

124. The Board reviewed the revised draft service-level agreement between UNDP and UNFPA on the provision of financial and administrative services. According to the draft agreement, the Executive Director of UNFPA and the Director of the Office of Finance and Administration of UNDP shall periodically conduct a quality assessment on the services provided by UNDP to UNFPA. This was a considerable improvement on the previous service agreements, as it was much more detailed and provided for periodic quality assessments. The quality and timeliness of inputs provided by UNFPA is important in order for UNDP to provide effective and efficient services to UNFPA.

125. The Board also noted that during the first quarter of 2001, UNDP undertook a study on changing to a method of activity-based costing for reimbursements. This method would have ensured that only those costs attributable to services provided were included and that the sharing of costs was fair and reasonable. The study showed, however, that IMIS did not support the use of the activity-based costing method, as data were not captured on the activity level. UNDP informed the Board that it would ensure that the methods used to calculate reimbursements were fair and reasonable.

126. **The Board is concerned that the service-level agreements had not yet been finalized at the time of the audit, in May 2002.** UNDP informed the Board that the Office of Budget was giving high priority, along with the concerned divisions of UNDP, to completing their negotiations with UNFPA and UNOPS. Once these negotiations are concluded, the agreements will be signed and implemented.

127. **The Board recommends that the service-level agreements for services provided by UNDP to UNFPA and UNOPS be finalized and implemented as a matter of priority.**

128. The Board also noted considerable delay in the reimbursement for services delivered. UNDP was reimbursed only by the end of 2001 for services delivered to UNFPA in the biennium 1998-1999. At the time of the audit, UNDP had been only partially reimbursed for the services delivered to UNFPA in 2000-2001.

129. **The Board recommends that UNDP implement stricter time frames for the reimbursement of services delivered and that the outstanding reimbursements for the biennium 2000-2001 be made as soon as possible.**

Common premises

130. UNDP country offices often share office space with other United Nations agencies in the various countries, commonly referred to as United Nations House. **The Board noted, however, that not all UNDP country offices had established formal agreements with the other United Nations agencies for the sharing of common costs, such as electricity, telephone and maintenance. In addition to this, the Board noted that in country offices where formal agreements had been established, those agreements did not always properly address the diversity of the common services and the reimbursement to UNDP for the services delivered. Also, the modality of cost reimbursements differed.** The following are specific examples noted during the country office audits:

(a) *Paraguay*. An agreement existed regarding the sharing of costs based on the proportional share of the common building. However, the Board determined that this agreement did not provide for the recovery of other costs, for example, the costs of the administration of the common premises by the UNDP country office;

(b) *Ethiopia*. A 3 per cent handling fee was charged by UNDP Ethiopia to other agencies for services rendered effective from 2001. The basis of the rate was not clear;

(c) *Malaysia*. The office area occupied was used as a basis for calculating the contribution by the participating United Nations agencies, and the cost was recovered on a quarterly basis. The country office was also responsible for the payment to suppliers for costs related to premises on behalf of the host Government. An administrative levy of 3 per cent was charged for this service;

(d) *Morocco*. The Board noted that a 4.5 per cent recovery fee was charged on financial services rendered to UNFPA and 2 per cent was charged on services rendered to the World Food Programme;

(e) *Uruguay*. UNDP and other United Nations agencies shared common premises and facilities in Uruguay. However, no proper agreement was in place in respect of the sharing of these costs or the mechanism for cost sharing nor for identifying each agency's responsibility at the shared premises;

(f) *Zimbabwe*. The costs of common services were financed by means of a common cost account to which each agency had to contribute to fund the expenditures. The Board furthermore noted that the amount of office space occupied was used as the basis for calculating the contributions by the participating United Nations agencies to the common cost account, except for local area network management where the number of terminals for each agency was used as a oasis.

131. The salaries of some of the country offices' staff members responsible for rendering common services to other United Nations agencies were paid from the common service account. However, the cost allocation for those salaries was based on the amount of office space occupied, which did not provide an appropriate distribution of costs, since it was not based on the actual services rendered. Also,

UNDP country offices were not always able to provide evidence to the Board that the rates of recovery fully covered the costs incurred.

132. **The Board recommends that UNDP intensify its efforts to conclude formal agreements with other United Nations agencies as soon as possible. UNDP should also implement cost-recovery strategies to ensure recovery of the full cost of all services rendered. Furthermore, the country offices should consider apportioning the cost of common services based on the activity rendered.**

3. Non-expendable equipment

Inventory control system

133. UNDP headquarters did not have a suitable inventory control system in accordance with the financial rules. UNDP had a computerized headquarters inventory system since 1995 that was not year-2000-compliant. Consequently, UNDP headquarters operated a manual system for inventory during 2000-2001. During the interim audit, the Board noted control weaknesses in the manual system, such as: (a) the inventory records were not continuously updated with purchases and disposals of non-expendable property items; (b) the physical existence of non-expendable property items, recorded in the inventory system, could not be verified because of inadequate descriptions and identification of items; and (c) the UNDP Intranet help desk was also not continuously updated with purchases of computer items.

134. In following up the interim audit findings on non-expendable equipment, the Board noted that UNDP had engaged the services of a consulting firm to undertake a physical inventory of non-expendable equipment at UNDP headquarters and to upload the data into the Aperture inventory software package.

135. The Aperture software inventory module was installed during December 2001 at no additional cost, as it had previously been utilized for lease commitments and space management. However, the Board noted that the weaknesses previously identified in the manual system had not been completely addressed. Those weaknesses included inventory records that were not continuously updated with purchases and disposals and the inability to verify the physical existence of non-expendable equipment items because of inadequate descriptions and identification of items on the system. The system does provide for the tracking of inventory items, however those controls were not implemented and the physical numbering or tagging of items was not done. Similar weaknesses were also identified during our country office audits in Ethiopia, Nepal, Paraguay, Turkey, the United Republic of Tanzania and Uruguay.

136. **The Board recommends that UNDP intensify its efforts to develop and maintain a suitable inventory control system in compliance with the financial rules and other directives.**

137. UNDP informed the Board that during 2002 it would verify the inventory accuracy on a test basis. Also, inventory records would now be continuously updated with purchases and disposals. The heads of units would be required to sign off on the inventory database in Aperture and to note any discrepancies. Furthermore, the tracking controls in Aperture would be implemented, and country

offices would be requested to take corrective action, including the requirement to certify the physical inventory, and to submit the results for review.

4. Trust funds

Inactive trust funds

138. The Board reviewed the trust funds established by UNDP and noted that for 130 of the 281 trust funds disclosed in schedule 5 of the UNDP financial statements, no contributions or expenditure had been reported for two or more years. However, the fund balances of 95 of the 130 trust funds had been either refunded or transferred to other trust funds during the biennium, leaving 35 inactive trust funds in the UNDP records as at 31 December 2001. UNDP is commended for its efforts to follow up and finalize these trust funds. The fund balance as at 31 December 2001 amounted to $417 million.

139. The Board reviewed the steps taken by UNDP to follow up on the remaining 35 inactive trust funds and found that letters had been issued to the respective fund managers requesting them to review the trust fund statements and to complete the final project revisions. The finance section can close the outstanding activities and remove the inactive trust funds from the system only after receipt of the signed final project revisions from the fund managers. However, the Board found that the fund managers did not always respond to the letters and that they were not regularly followed up, resulting in some of the trust funds being inactive since 1998, for example, the UNDP Trust Fund for demobilization, reintegration, rehabilitation and recovery in Sierra Leone. The Board further noted that UNDP did not have a formal system in place to track the expiry dates of projects or trust funds. This could lead to UNDP not complying with the specific closure requirements included in trust fund agreements.

140. **The Board recommends that UNDP intensify its efforts to finalize all outstanding activities of inactive trust funds and implement a formal system to track and monitor expiry dates and specific closure requirements included in trust fund agreements.**

141. UNDP informed the Board that it would continue to follow up inactive trust funds with the relevant fund managers to ensure that the final project revisions are done and any balances are either refunded or transferred to other projects according to the donor's wishes. In cases where it is unclear what to do with the remaining funds, UNDP will close the trust fund and retain the funds in a payable account, pending a decision by the fund manager on the disposal of the funds after consultations with the donor. UNDP also informed the Board that its project management systems did not currently track expiry dates for either trust funds or cost-sharing agreements, but that the new release of the financial information management system that was being developed was expected to have such functionality. However, it was working on an interim solution to address the issue for at least trust funds.

142. Based on a review of the sub-trust funds and fully funded arrangements of the United Nations Volunteers, it was noted that at least 37 of the 80 sub-trust funds and 20 of the 96 fully funded arrangements listed in schedules 7.1 and 7.3 of the financial statements respectively were inactive as at 31 December 2001. No

contributions or expenditure were reported for these sub-trust funds and fully funded arrangements during the last two or more years.

143. The total remaining fund balances of inactive sub-trust funds and fully funded arrangements as at 31 December 2001 were still $631,062 and $144,736 respectively.

144. **The Board recommends that the United Nations Volunteers follow up on all inactive sub-trust funds and fully funded arrangements with a view to finalizing all outstanding activities and to comply with the specific closure requirements included in the donor agreements.**

145. The United Nations Volunteers informed the Board that it would follow up with the donor regarding the financial closure by either refunding balances or transferring them to other funding arrangements with the same donor. It would also follow up with the donors with regard to residual funds to obtain their agreement to either retain the funds for other arrangements or to refund the balance.

Trust funds in defi

146. **The Board n** noted that 16 of the 281 trust funds established by UNDP and **disclosed in sched** note 8 of the UNDP financial statements were in a deficit **position as at 31 D** December 2001. The total deficit of those trust funds was $1.7 **million.** This is co million. In terms of UNDP financial regulation 4.01 (b), which states that contributions shou shall be paid in advance of the allocation made for the implementation of p planned UNDP programme activities.

147. **The Board re** recommends that UNDP follow up on all trust funds in deficit **positions with a v** with a view to recovering the overexpenditures. The Board further **recommends that t** recommends that UNDP implement a system to monitor such overexpenditures.

148. UNDP inform informed the Board that it had been very actively following up all such deficits with a view to eliminating or recovering them and would continue to do so. Where no other op options are available, UNDP will seek to recover the amounts in deficit and close the trust fund in accordance with UNDP regulations and rules.

5. Human resources m management

149. The total auth authorized posts at UNDP, as at 31 December 2001, amounted to 4,029 (603 internat International Professional and 3,426 General Service), of which 599 were unencumbere (26 international Professional and 573 General Service). This represented a vacan vacancy rate of approximately 15 per cent. Payroll expenses for the biennium 2000-200 amounted to $95.6 million at headquarters.

150. UNDP inform informed the Board that the 2002-2003 budget contained a reduction of 706 posts. The va vacancies represented a conscious effort towards achieving that target. In January 2 2002, no vacancies were available.

6. Investments: segre segregation of incompatible functions

151. As at 31 Dec December 2001, UNDP had the following types of investments: interest-bearing cur current accounts; call accounts; time deposits; bonds and notes; and money-market fund . The carrying value of investments at that date amounted to $1.96 billion. The t Treasury section of UNDP invests and manages its own surplus funds, with oversigh from the UNDP Investment Committee.

152. **The Board noted, however, that there was no segregation of duties between the following investment functions: investment management; credit risk monitoring; performance reporting; and investment accounting.**

153. At the time of the audit, the portfolio manager performed all of these functions. The UNDP treasury section informed the Board that procedures that relied on oversight by the Treasurer and the UNDP Investment Committee had been necessitated by a lack of sufficient staffing resources in the treasury section.

154. **The Board recommends that proper segregation of duties between investment functions be implemented, and UNDP agreed.**

7. Procurement

Lead time for contract letting

155. *The Board found that for a sample of contracts, UNDP took an average of 30 days between the due date for the receipt of bids and the date of approval of the contract by the Advisory Committee on Procurement. There was an average of 50 days between the date of approval of the contract by the Committee and the date the contract was signed. In its report on the biennium 1998-1999, the Board also raised a concern on the lead time for contract letting.*

156. *The Board was informed of the initiatives of the Office of Legal and Procurement Support to shorten this process, including the re-engineering of the Advisory Committee on Procurement process and the development of standard contract documents to facilitate the preparation of various types of contracts. The Board will review the impact of these initiatives on lead time during future audits.*

157. **The Board reiterates its recommendation that UNDP establish benchmarks for performance for contract letting and monitor performance against those standards, and UNDP agreed.**

Monitoring of supplier performance

158. **UNDP did not formally evaluate supplier performance.** During the interim audit, UNDP informed the Board that a mechanism to appraise supplier performance had been developed in cooperation with the Inter-Agency Procurement Working Group and that it would be provided to all units concerned with contracting. The Board was pleased to note that this mechanism had been included in the revised UNDP Procurement Manual of 1 September 2001. However, the Board noted that such a mechanism was not yet utilized by headquarters at the time of the audit.

159. ***The Board recommends that UNDP ensure that the mechanism for evaluating supplier performance included in its Procurement Manual is optimally utilized by all units concerned with contracting.***

Corporate/purchase cards

160. *During January 2000, UNDP introduced the use of corporate cards for the purpose of streamlining and simplifying the procurement process for small transactions in dollars. These credit cards were replaced by purchase cards in September 2000, which provided more flexibility in monitoring their use. By the end of 2001 there were some 65 cardholders at UNDP headquarters and another 3 at*

country offices. Annual transactions made with purchase cards totalled some $1.2 million.

161. With the introduction of the corporate cards, UNDP implemented control limits to prevent the misuse of cards, namely, a monthly limit of $10,000, a transaction limit of $1,000 and the blockage of some merchant categories, such as cash and travel.

162. The Board noted, however, that six cardholders had exceeded the standard transaction limit of $1,000 as specified in the UNDP corporate card manual, but that those cases had been pre-authorized by the card administrator to allow the respective units to meet urgent procurement requirements. The Board was concerned that the use of cards for purchases of high-value items might result in expenditure exceeding allotment lines, as this system eliminates the use of purchase orders, and therefore the funds were not obligated first.

163. The Board further noted that the transaction limit of $1,000 had been increased to $2,500 in October 2001. It is expected that this increase in the transaction limit will increase the total annual spending through purchase cards from $1.2 million to nearly $2 million.

164. The Board recommends that UNDP implement proper controls to ensure that the requirements of the corporate card manual in respect of transaction limits are adhered to and that where there is a need for an increased limit, UNDP implement proper controls to ensure that expenditure is within the allotment lines.

165. In terms of the agreement between UNDP and the relevant bank, payments for expenditure incurred on corporate cards should be made before the due date shown on the billing statement to avoid incurring delinquent and late fees. Since April 2001, the payment function of corporate cards has been decentralized to the various units. However, the Board noted that for six cardholders, UNDP did not make payments on time. This resulted in the suspension of two corporate cards.

166. **The Board recommends that UNDP implement controls to ensure that each cardholder comply with the terms of payment as stipulated in the agreement between UNDP to avoid unnecessary expenditure.**

167. UNDP informed the Board that cardholders who were delinquent would be informed of their delinquent status and of the fees and interest attached to the delinquency. Cardholders would also be reminded that late payment fees and interest owed as a result of late payments and delinquencies would be recovered from their salaries and that their card privileges would be withdrawn. The Comptroller's Division would also monitor the status of payments on a monthly basis and inform cardholders whose payments were still not made within one week of the due date.

8. Internal oversight reports

168. During the biennium ended 31 December 2001, the Office of Audit and Performance Review completed a number of internal audits and investigations, which are summarized in table II.3.

Table II.3
Internal oversight reports

Internal audit and oversight services provided	Reports issued 2000	2001	Total
Management reviews and advisory services	0	3	3
Internal audits/reviews of functions	1	3	4
Internal audits/reviews of projects	2	1	3
Internal audits/reviews of country offices	43	43	86
Subtotal	**46**	**50**	**96**
Control self-assessment sessions	18	16	34
Investigation cases	32	16	48
Total	**96**	**82**	**178**

169. Out of 96 UNDP internal audits and reviews completed during the biennium, only 2 related to UNDP headquarters. These audits related to the UNDP energy account and the contracting of travel services. There was also an audit of headquarters policies with respect to procurement in progress at year's end. Seven audits relating to UNDP headquarters were planned for 2002. However, as in the biennium 1998-1999, the Office of Audit and Performance Review did not perform any audits evaluating and reporting on the reliability of the accounting and other data developed by UNDP for the production of its financial statements.

170. **The Board recommends that UNDP revise its programme of work for internal audit to include an appropriate level of coverage of financial procedures and controls at headquarters.**

171. For each country office, the Office of Audit and Performance Review assessed the adequacy of internal controls according to the following ratings: good, satisfactory, marginally deficient, deficient and seriously deficient. Special audit reports do not have ratings. The breakdown by overall rating of the internal audit reports issued for UNDP country offices during the biennium is shown in table II.4.

Table II.4
Rating of country offices

Year	Good	Satisfactory	Marginally deficient	Deficient	Seriously deficient	Total
2000	0	13	19	3	4	39
2001	1	7	19	9	1	37
Total	1	20	38	12	5	76

172. The Board noted that the adequacy of internal controls was assessed as less than satisfactory at 55 (72 per cent) of the country offices audited. The Office of Audit and Performance Review requires country offices to provide semi-annual

updates on the status of any outstanding recommendations, which are then reviewed and maintained on a central database. Country offices have direct access to this database and can update the status of their audit recommendations online. However, not all country offices complied with this requirement.

173. **The Board recommends that all outstanding recommendations be followed up with country offices, and the Office of Audit and Performance Review agreed.**

174. For the reports issued during 2000, it took the Office of Audit and Performance Review 11 weeks on average to issue the final report after the fieldwork was completed. The Board is concerned that in certain instances it took the Office more than six months to issue the final report. The risk of delayed reporting is that the conditions prevailing during the audit might have changed significantly, and therefore the efforts and results obtained by way of the audit are negated.

175. **The Board recommends that stricter time frames be established and enforced to improve and strengthen the processes of reporting and follow-up.**

176. The Office of Audit and Performance Review informed the Board that as from 2002 it would strictly enforce its internal policy of issuing draft audit reports to management for comment within four weeks of the completion of audit work. The Office also informed the Board that all efforts would be made to ensure that management comments are received on a timely basis so that the final audit reports will not be delayed.

9. Green office policy

177. The Board examined green office issues as part of its report on the biennium 1998-1999 and followed up on those issues at UNDP headquarters during the audit for the biennium 2000-2001. The Board noted that, as at May 2002, UNDP did not have an environmental management strategy. UNDP informed the Board that since the environmental operations and policy adviser had been appointed, the momentum and level of accomplishment of its work on the environmental management strategy would increase. UNDP intends to submit an environmental management strategy to the Executive Board for approval in 2002.

178. UNDP launched its green office initiative in June 1995. The Board reviewed the progress made by UNDP in three of the major areas addressed by the initiative, namely, green procurement, energy efficiency and building management and recycling.

179. **The Board is pleased to note that UNDP had developed a green procurement policy that had been included in the revised UNDP Procurement Manual issued in September 2001. According to this policy, UNDP will seek to procure goods and services that lessen the burden on the environment in their production, use and final disposition, whenever possible and economical.**

180. UNDP signed a contract for the retrofitting of the FF building on 4 September 2001. This comprehensive energy-efficient retrofit addresses the upgrade of air conditioning and lighting equipment with control systems as well as managerial and maintenance issues. UNDP expects to save some $900,000 in operating and energy consumption costs over the period of the contract. UNDP further informed the

Board that it had already advised the United Nations of the initiative and would report on the results for possible replication in the DC-1 building. UNDP has well-established recycling efforts in place. This includes the recycling of paper, cans, glass, old computers and printer and fax cartridges.

10. Information and communications technology

Information systems change

181. UNDP, UNFPA and UNOPS have utilized the Integrated Management Information System since 1998. IMIS, in conjunction with 22 other interfaces, makes up the financial system. UNDP provides the necessary information and communication technology services to UNFPA and UNOPS with regard to the IMIS system. IMIS was customized at an actual cost of $20.2 million in the biennium 1998-1999. In May 2002, UNDP decided to replace the current IMIS system with PeopleSoft after the Executive Board approved a budget of $47 million for information costs relating to legacy, infrastructure, the implementation of an enterprise resource planning system and business process re-engineering for the biennium 2002-2003.

182. The main reason for replacing IMIS was that it no longer met business requirements, such as access for country offices, cash management and the cumbersome user interface. The assessment showed that less than 40 per cent of the required business functionalities were met by IMIS.

183. UNDP went through a competitive bidding process before deciding on PeopleSoft. This process included an evaluation of IMIS and its functionalities by independent consultants. Through this process, UNDP was able to specify the need for a new system. PeopleSoft was selected after comparing cost, business needs, systems research and technical analysis, as well as benchmarking and best practices studies. PeopleSoft is an enterprise resource planning system. It was chosen above the SAP, Oracle, Great Plains and Agresso enterprise resource planning systems. UNDP decided on an enterprise resource planning system through a cost-analysis and cost-saving scenario pertaining to maintaining IMIS, replacing it with an off-the-shelf product or developing a new system internally.

184. Key functionalities are expected to be implemented and put into production by 1 January 2004. The cost of implementation will be approximately $45 million over five years, with an anticipated saving of $33 million over the other options considered, as noted in the consultant's report.

185. The UNDP Executive Board approved the proposal to implement the enterprise resource planning system. UNDP informed the Board that the need for such a system had been demonstrated to the High-level Committee on Management. In addition, both UNOPS and UNFPA were involved in the enterprise resource planning strategy process. UNDP distributed its enterprise resource planning strategy to every agency in the United Nations system. The Board is aware that the progress on the enterprise resource planning approach is being followed by other United Nations agencies, including the Office of the United Nations High Commissioner for Refugees, the United Nations Children's Fund, the United Nations International Drug Control Programme, the Food and Agriculture Organization of the United Nations, the International Civil Aviation Organization, the International Labour Organization, the United Nations Educational, Scientific

and Cultural Organization, the World Health Organization and the World Food Programme. A number of these agencies are known to be considering or developing their own enterprise resource planning solutions.

186. **The Board expresses concern about this coacurrence of a number of very costly information and communication technology systems within the United Nations system at the expense of the same stakeholders, covering the same geographical areas, under similar rules and regulations and working towards similar global ends.**

Computer audit of the general controls surrounding the Integrated Management Information System

187. General controls establish a framework of overall control over the information technology environment and provide reasonable assurance that the information technology environment supports the overall objectives of internal control. They are important, as they serve as the foundation for controls of all application systems and ensure the effective operation of procedures, including controls over the design, implementation, security, use and amendment of programmes and files. The findings of these reviews highlighted that, although some general controls were in place, several weaknesses existed in the control environment as a whole. The most significant control weaknesses at UNDP were:

(a) Security management was not governed by means of a formal, documented and approved security policy;

(b) UNDP did not have formally documented and approved programme change control procedures. Change control meetings, involving all users, were not held on a regular basis;

(c) The existing system development life-cycle methodology was not complete nor was it updated regularly to reflect the changes that took place in the UNDP environment. A formal project acceptance forum had not been established for the selection or launching of projects. Regular scheduled meetings were also not held with all relevant parties to discuss the progress of projects launched;

(d) An off-site back-up location had not been established, and all the back-up tapes were kept onsite, which could be attributed to the lack of a formally documented, approved and updated disaster recovery plan and back-up and restoration procedures;

(e) Although network-monitoring packages were used to monitor network performance and faults, reports were not formally submitted to management for review and input;

(g) Activity logs and access violation logs were not generated for the (Unix) servers at UNDP to be reviewed by management. Formal procedures for the review of activity logs and access violation logs also did not exist;

(h) Various weaknesses were identified with regard to the logical access controls on the Unix servers and UNDP;

(i) The IMIS database administrators at UNDP did not have unique database administrator identifications;

(j) Formally approved and updated service-level agreements, stipulating services and responsibilities, had not been concluded between UNDP and the United Nations; UNDP and UNFPA; or between UNDP and UNOPS.

188. The Board recommends that UNDP:

(a) Establish, formally approve, implement and update on a regular basis a security policy;

(b) Compile formally documented programme change control procedures;

(c) Complete and update its system development life-cycle;

(d) Establish and regularly test an off-site back-up location;

(e) Formally review network, intruder detection and activity violation reports;

(f) Ensure that each Unix administration uses its own user identification;

(g) Approve service-level agreements with UNFPA and UNOPS.

11. Cases of fraud and presumptive fraud

189. During the biennium 2000-2001, UNDP reported 27 cases of fraud or presumptive fraud. UNDP had not yet determined the financial loss in 3 of the alleged cases, but estimated a total loss of $190,602 on the other 24. Those cases related, among other things, to poor management of inventory, irregular disbursements, rental subsidy fraud, misuse of telephone services, theft of cash, falsified medical claims, misappropriation of funds and other financial irregularities. UNDP recovered only $11,785.

190. During 2001, the Office of Audit and Performance Review worked on 55 investigation cases. The cases related, among other things, to rental subsidy fraud; payment of personal expenses; unauthorized renovation of facilities; fraud in the medical insurance programme; other types of fraud, theft, financial mismanagement or irregularities; procurement or contracting irregularities; and attempted bribery, extortion and conflict of interest.

191. UNDP includes elements of fraud prevention in different rules and procedures. However, fraud prevention cannot be achieved with regulations and internal controls alone, but rather with a proactive strategy and resulting structured plan. UNDP had not implemented a well-structured plan that could also have the benefit of increasing donor confidence in UNDP. In developing a fraud-prevention plan, UNDP should consider:

(a) Establishing a corruption and fraud-prevention committee to serve as an effective framework and coordination point;

(b) Conducting a formal corruption and fraud risk assessment;

(c) Conducting ethics, corruption and fraud-awareness training sessions and workshops;

(d) Strengthening existing and developing additional detection mechanisms;

(e) Developing appropriate resolution mechanisms for reported and detected incidents and allegations of corruption and fraud.

192. **The Board recommends that UNDP develop its own fraud-prevention plan, including fraud-awareness initiatives, in discussion with the Administration of the United Nations and the other funds and programmes to obtain the benefit of best practices, where available, in specific or all elements being considered.**

193. UNDP informed the Board that it would explore the best and most appropriate mechanisms for the formulation and oversight of such a strategy in the context of a review and revision of its internal justice system.

D. Acknowledgements

194. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Administrator and staff of the United Nations Development Programme.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

27 June 2002

Annex

Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1999*

1. The Board has followed up on the action taken by the United Nations Development Programme (UNDP) to implement the Board's recommendations made in the context of its report for the biennium ended 31 December 1999. Table A.1 summarizes the status of implementation of all the previous recommendations, while table A.2 details specifically those recommendations not implemented and those that are under implementation that require further comment.

2. In its previous report, out of 46 recommendations made by the Board, 31 were implemented, 11 were under implementation and 4 were not implemented.

Table A.1
Summary of status of implementation of recommendations for the biennium 1998-1999

Topic	*Implemented*	*Under implementation*	*Not implemented*	*Total*
A. Financial issues				
Programme expenditure	-	para. 10 (a)	-	1
Bank reconciliations	para. 37	-	-	1
Non-expendable equipment	-	-	para. 41	1
Advances	-	para. 42	-	1
Subtotal				
Number	**1**	**2**	**1**	**4**
Percentage	**25**	**50**	**25**	**100**
B. Management issues				
Change management	para. 64 para. 55 para. 59 para. 61 para. 67 para. 70 para. 72	para. 10 (g) para. 79	-	9
Procurement	para. 85 para. 102 para. 106	para. 10 (j) para. 97	para.10 (i)	6

* *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5A* (A/55/5/Add.1), chap. II.

Topic	*Implemented*	*Under implementation*	*Not implemented*	*Total*
Green office policy	para. 117 para. 118 para. 125 para. 131 para. 10 (l) para. 10 (m)	para. 10 (k)	-	7
Project management	para. 143 para. 145 para. 149	para. 10 (q) para. 10 (r) para. 10 (n)	-	6
Internal oversight	para. 10 (u) para. 162 para. 171 para. 174 para. 178 para. 181 para. 184 para. 191 para. 194 para. 199 para. 203	para. 10 (s)	para. 177 para. 186	14
Subtotal				
Number	**30**	**9**	**3**	**42**
Percentage	**71**	**21**	**7**	**100**
Total				
Number	**31**	**11**	**4**	**46**
Percentage	**67**	**24**	**97**	**100**

Table A.2
Details on previous recommendations under implementation or not implemented for the biennium 1998-1999

Management			
Component/area of concern	*Recommendation*	*Specific management action/comments as at 30 April 2002*	*Comments of the Board*
Programme expenditure: Government and NGO, para. 10 (a)	UNDP should ensure regular follow-up on all outstanding audit reports and concentrate its efforts on those countries where it has the greatest levels of national execution.	UNDP closely monitors the status of the national execution and non-governmental organization audit reports. Frequent reminders are sent to country offices that fail to submit the audit reports on time. The Office of Audit and Performance Review also prepares evaluation letters that summarize the country office performance with respect to the management of the national execution and non-governmental organization audit exercise. The performance criteria include: timeliness of audit reports; expenditure reports signed by the executing agency and the auditor; adequacy of the audit plan; adequacy of audit scope; and adequacy of the country office action plan to address the audit findings and recommendations. Each country office is assigned a score, which is reported to senior management.	Under implementation. The Board's comments are contained in the present report (paras. 101-105).
Common services, para. 10 (g)	UNDP should require all country offices to investigate the possibilities of agreeing common service contracts with other United Nations organizations as a method of offering potential cash savings and administrative efficiencies.	UNDP is actively working with other United Nations organizations, especially those that are part of the United Nations Development Group, in implementing the Administrative Committee on Coordination Guidelines on Common Services at the country level. A workshop was organized at the International Labour Organization Training College in Turin in November 2001, and eight selected countries were invited to participate in the workshop, which assisted in strengthening common service initiatives within the United Nations system. It is UNDP policy to enter into common service contracts with other United Nations organizations where it is practical and cost-efficient to do so.	Under implementation. The Board's comments are contained in the present report (paras. 130-132).

Management			
Component area of concern	*Recommendation*	*Specific management action/comments as at 30 April 2002*	*Comments of the Board*
Procurement, para. 10 (i)	UNDP should establish a database of potential suppliers.	The recommendation is noted. Procurement at headquarters is done on a somewhat limited scale and covers a narrow range of goods and services, essentially computer equipment, office supplies, furniture and equipment and printing and building maintenance services. As such, an informal roster of potential suppliers is maintained. The divisions at headquarters undertaking procurement make use, where possible, of the United Nations supplier roster maintained by the Procurement Division of the United Nations. In addition, for a number of common items, UNDP is able to use the long-term agreements entered into by the United Nations and UFNPA. UNDP also has access to the United Nations common supply database maintained by UNDP/IAPSO on behalf of the United Nations system. It may not, therefore, be cost-effective for UNDP to establish and maintain its own separate formal database. The Chief, Administrative Services Division, Office of Finance and Administration, of the Bureau of Management, is responsible for implementation of this recommendation.	Not implemented. The Board notes the conclusion by UNDP that it may not be cost-effective to establish its own separate database, given the extent to which it uses the database of the United Nations system. The Board would recommend UNDP perform a cost-benefit analysis. The Board will continue to keep this matter under review.
Procurement, para. 10 (j)	UNDP should develop a more formal system for monitoring supplier performance.	A supplier performance evaluation has been incorporated into the recently issued UNDP Procurement Manual.	Under implementation. The Board's comments are contained in the present report (paras. 158-159).
Green procurement policy, para. 10 (k)	UNDP should undertake a cost-benefit analysis to assess the savings likely to accrue from the development of a green procurement policy.	UNDP has completed an informal study for the common-user items such as computers, vehicles, office supplies and equipment to identify the impact of incorporating environmental specifications on the cost. The findings are that the cost differences are negligible, and hence the environmental requirements have been incorporated as a standard in the specifications.	Under implementation. The Board's comments are contained in the present report (paras. 177-180).

Management			
Component/area of concern	*Recommendation*	*Specific management action/comments as at 30 April 2002*	*Comments of the Board*
Change management, para. 10 (n)	At country offices UNDP should ensure that executing agencies provide quarterly reports on the progress of projects and take prompt corrective action when projects fall behind schedule.	The recommendation is noted. In the past, UNDP programming procedures required quarterly reporting by executing agencies (then primarily specialized agencies of the United Nations system), but this requirement became burdensome and was reduced to annual reporting in the context of annual tripartite reviews of projects. As the extent to which agency execution is utilized as a modality for managing UNDP-supported projects has become limited, it may not be efficient to change current practices. At present, a majority of UNDP-supported projects are under national execution. A requirement for quarterly reporting under this modality already exists since national executing agencies are required to report on the progress of projects in connection with requests for payment of quarterly advances of resources.	The Board has not made any significant findings in this regard and will continue to monitor this issue in the context of improvements made in the area of project management.
Project management, para. 10 (q)	Project plans should be prepared only on the basis of committed funding.	UNDP policy continues to be that project documents reflect only such funds as are available within ceilings for commitments for the current planning period. UNDP has a system in place for immediately alerting senior management when an office exceeds its approval authority. An aggregated listing is compiled monthly. The oversight group will monitor this through random reviews of projects. These random reviews include checking project budget approvals against uncommitted resources available to the approving office at the time of signature of the project document.	Under implementation. The Board will continue to keep this matter under review during country office audits.

Management			
Component/area of concern	*Recommendation*	*Specific management action/comments as at 30 April 2002*	*Comments of the Board*
Project management, para. 10 (r)	UNDP should ensure that all projects contain quantified and measurable performance indicators or targets and measure the progress of a project against those criteria, and ensure that country offices carry out regular monitoring and evaluation in line with UNDP guidelines.	The UNDP Programming Manual already incorporates guidance to country offices on elements of the recommendation. However, following the introduction and institutionalization of results-based approaches in the organization, a process is under way to develop revised UNDP programming instruments that will include measurable results targets and indicators and seek to achieve consistency in this respect for all programme documentation, from the country cooperation framework to individual project documents. It was expected that the revised instruments would be ready for launch by the end of 2001. This would put UNDP in a leadership position in results-based management techniques.	Under implementation. The Board will continue to keep this matter under review during country office audits.
Internal oversight, para. 10 (s)	UNDP should require the Office of Audit and Performance Review to ensure that each member of the staff receives sufficient training to ensure that the organization retains its technical competency.	Annual training and development plans were developed as part of the annual performance assessment exercise. Long-term plans will be developed after the internal audit task force has completed its work. This task force, established by the Administrator, is reviewing the scope and approach of internal audits; this will have a direct impact on the training and development needs of internal audit staff. The long-term plans will address the overall needs of the Office, as well as individual needs.	Under implementation. Although not all staff received audit-related training, there was an improvement during the biennium 2000-2001. The Board intends to undertake a detailed audit of internal oversight during the biennium 2002-2003.
Non-expendable equipment, para. 41	UNDP should require resident representatives to certify the accuracy of the annual country office inventory returns and monitor returns to ensure that all are received; review the headquarters inventory and ensure that it provides realistic valuations for all equipment; and intensify its effort to develop a suitable inventory control system.	UNDP has implemented this recommendation, and certified annual inventory returns from country offices have improved considerably. With regard to the inventory control software, the remaining bugs in the current inventory system have been fixed; however, UNDP has concluded that it will be more efficient to introduce a new system for inventory control in the light of advances in information technology. UNDP intended to introduce such a system by the beginning of 2002.	Not implemented. The Board's comments are contained in the present report (paras. 30-36).

Management			*Comments of the Board*
Component/area of concern	*Recommendation*	*Specific management action/comments as at 30 April 2002*	
Advances, para. 42	UNDP should complete the review of advances to Governments and write off all necessary amounts.	UNDP has continued the review of all pending receivables, including the outstanding advances to Governments, and will proceed with the write-off in 2002.	Under implementation. The Board's comments are contained in the present report (paras. 81-83).
Change management, para. 79	All country offices should complete job descriptions and competency statements for all posts and should use them to develop appropriate training plans for staff.	The Office of Human Resources Learning Resources Centre supports the development of appropriate training plans to accompany both new job descriptions and the alignment of competency statements for all posts, however the expertise available from the Centre is limited. The scope of creating new job descriptions and competency statements for the posts in all the UNDP country offices is extremely wide. In the context of the current reduction exercise at UNDP and the forthcoming restructuring expected of country offices, UNDP will need to determine the appropriate support for this important exercise and the level of additional resources required. It is too soon to know exactly the scope of this exercise, but it will be an early priority to be developed in connection with the eventual plans for country office restructuring.	Under implementation. The Board noted that UNDP had during 2000-2001 conducted a detailed results competency assessment process and that job descriptions could be finalized only on completion of such a process. The Board will continue to keep this matter under review.
Procurement, para. 97	UNDP should benchmark its performance in the time taken to let contracts, establish timetables for each element of the procurement process and monitor performance against them.	The recommendation is accepted. UNDP will establish appropriate benchmarks for contract letting.	Under implementation. The Board still noted some minor instances of long delays in the contract-letting process. The Board will continue to keep this matter under review.

Management			
Component/area of concern	*Recommendation*	*Specific management action/comments as at 30 April 2002*	*Comments of the Board*
Internal oversight, para. 177	The Office of Audit and Performance Review should conduct formal, independent reviews to determine how effectively management is implementing the control self-assessment action plans.	Offices having undertaken control self-assessments are now required to submit action plans to the Office of Audit and Performance Review; a request for update is sent six months following the control self-assessment session. The tracking system began in April 2001. An independent review was planned, but was not carried out owing to other priorities relating to country offices. Such a review may be undertaken in future.	Not implemented. The Board plans to undertake an audit of internal oversight during the biennium 2002-2003.
Internal oversight, para. 186	The Office of Audit and Performance Review should develop a system to properly identify the full cost of each output.	The Office of Audit and Performance Review is participating in an activity-based costing pilot project, initiated by the Bureau of Management. Baseline data have been captured, and the pilot project was expected to be fully functional in 2002. The model would be reviewed and compared to a simpler alternative with time-sheet-based options.	Not implemented. The pilot project has been cancelled, and simpler alternatives are being sought. The Board plans to undertake an audit of internal oversight during the biennium 2002-2003.

Chapter III
Audit opinion

We have audited the accompanying financial statements, comprising statements I to IV, schedules 1 to 8, and the supporting notes of the United Nations Development Programme for the biennium ended 31 December 2001. The financial statements are the responsibility of the Administrator. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Administrator, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, these financial statements present fairly, in all significant respects, the financial position as at 31 December 2001 and the results of operations and cash flows for the period then ended in accordance with the policies set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial year.

Without qualifying our opinion above, we draw attention to our findings on nationally executed programme expenditure. Although we noted significant improvements, we were concerned about the effectiveness of internal controls and procedures as well as the adequacy of the assurance obtained by UNDP that funds had been properly used for the purpose intended. Furthermore, we draw attention to note 3 (d) to the financial statements, for which we have been unable to obtain assurance as to the reasonableness of the value of non-expendable equipment disclosed in the amount of $94.5 million.

Further, in our opinion, the transactions of the Programme which we have tested as part of our audit have in all significant respects been in accordance with the Financial Regulations and Rules and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long-form report on our audit of the Programme's financial statement.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

27 June 2002

Chapter IV

Financial statements for the biennium ended 31 December 2001

Abbreviations used in the financial statements

AfDB	African Development Bank
AFESD	Arab Fund for Economic and Social Development
AIJ	activities implemented jointly
AMDA	Association of Medical Doctors of Asia
AOS	administrative and operational services
AsDB	Asian Development Bank
BCPR	Bureau for Crisis Prevention and Recovery
BDD	British Development Division
BDP	Bureau for Development Policy
BOM	Bureau of Management
BRSP	Bureau for Resources and Strategic Partnerships
CBO	community-based organization
CCD	United Nations Convention to Combat Desertification
CFC	chlorofluorocarbons
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
DANIDA	Danish International Development Agency
DDS	domestic development services
DESA	Department of Economic and Social Affairs
DEVNET	Development Network
DFID	Department for International Development
DRPC	Division for Resources Planning and Coordination
ECA	Economic Commission for Africa
ECE	Economic Commission for Europe
ECLAC	Economic Commission for Latin America and the Caribbean
EEC	European Economic Commission
ESCAP	Economic and Social Commission for Asia and the Pacific
ESCWA	Economic and Social Commission for Western Asia
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
GCCC	government cash counterpart contribution
GEF	Global Environment Facility
GLOC	government local office costs
GLOG	Guyana Long-term Observation Group
HCFC	hydrochlorofluorocarbons
HDRO	Human Development Report Office
IADB	Inter-American Development Bank
IAEA	International Atomic Energy Agency
IAPSO	Inter-Agency Procurement Services Office
IBRD	International Bank for Reconstruction and Development
ICAO	International Civil Aviation Organization
ICT	information and communication technology
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IDLI	International Development Law Institute
IITA	International Institute of Tropical Agriculture
IMF	International Monetary Fund
IMO	International Maritime Organization

IOM	International Organization for Migration
IPF	indicative planning figure
IRRI	International Rice Research Institute
ITC	International Trade Centre UNCTAD/WTO
ITU	International Telecommunication Union
JAIDO	Japan International Development Organization
JOCV	Japan Overseas Cooperation Volunteers
LDC	least developed country
MOFA	Ministry of Foreign Affairs
MOU	memorandum of understanding
MS	Danish Association for International Cooperation
MSA	management service agreement
NEX	nationally executed expenditure
NGO	non-governmental organization
NORAD	Norwegian Agency for International Development
OA	Office of the Administrator
OCHA	Office for the Coordination of Humanitarian Affairs
ODS	ozone-depleting substances
OHADA	Organization for the Harmonization of Business Law in Africa
OSG	Operations Support Group
PAPP	Programme of Assistance to the Palestinian People
PFMS	Project Financial Management System
PPB	Pilot Programme Brazil
RFA	reserve for field accommodation
ROAR	results-oriented annual report
SADCC	Southern African Development Coordination Conference
SICA	Spanish International Cooperation Agency
SIDA	Swedish International Development Cooperation
SIS	special industrial services
SNV	Netherlands Development Organization
SPR	special programme resources
SRF	strategic results framework
SU/TCDC	Special Unit for Technical Cooperation Among Developing Countries
SUNV	SNV/UNV
SVA	Shanti Volunteer Association
TCA	trichloroethane
TCDC	technical cooperation among developing countries
TRAC	target for resource assignment from core
UNA	United Nations Association
UNCDF	United Nations Capital Development Fund
UNCHS	United Nations Centre for Human Settlements (Habitat)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNF	United Nations Foundation
UNFIP	United Nations Fund for International Partnerships
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization

UNIFEM	United Nations Development Fund for Women
UNISTAR	United Nations International Short-term Advisory Resources
UNITAR	United Nations Institute for Training and Research
UNOPS	United Nations Office for Project Services
UNSO	Office to Combat Desertification and Drought
UNTAC	United Nations Transitional Authority in Cambodia
UNV	United Nations Volunteers
UPU	Universal Postal Union
USAID	United States Agency for International Development
USO	Voluntary Service Overseas
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO	World Trade Organization

[illegible] NATIONS DEVELOPMENT PROGRAMME

[illegible] 2000-2001

[illegible]
Income and expenditures and fund balances for the biennium ended 31 December 2001

(Thousands of United States dollars)

	Regular Resources Activities		Other Resources Activities		Funds Administered by UNDP	
	2000-2001	1998-1999	2000-2001	1998-1999	2000-2001	1998-1999
[illegible]						
Contributions	1,300,989	1,453,504	3,570,860	3,409,974	148,856	148,670
Loss transfer to Biennial support budget	(30,063)	(26,666)	-	-	-	-
Contributions - net	1,265,892	1,427,118	3,570,860	3,409,974	148,856	148,670
Interest income	(35,672)	68,200	181,570	127,081	14,760	27,837
Other income	64,398	8,974	131,660	86,247	21,011	17,119
TOTAL INCOME	1,314,618	1,504,292	3,883,970	3,623,302	184,627	193,626
EXPENDITURE						
Programme	710,867	1,077,767	3,333,148	3,275,153	144,213	159,767
Programme support - Implementing agents	70,791	89,871	60,883	57,677	10,181	6,226
Programme support to Resident Coordinator	16,036	21,033	3,339	690	-	-
Development Support Services	2,311	-	-	-	-	-
UNDP Sectoral support services	-	527	-	-	-	-
Biennial support budget - net	500,395	493,133	237,395	160,010	32,957	20,699
Other Expenditure	89,796	10,005	3,214	3,236	1,180	379
TOTAL EXPENDITURE	1,400,676	1,692,336	3,639,179	3,506,166	188,583	195,265
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	(86,058)	(187,956)	244,822	115,116	(3,956)	(1,639)
Savings on prior biennium's obligations	7,656	3,866	2,670	1,087	288	-
Transfer (to) from reserves	28,600	7,700	(10,600)	(54,000)	4,380	(4,100)
Refunds to donors and transfers (to) from other funds	(8,764)	(1,549)	(11,088)	(10,381)	(701)	(312)
Fund balances, 1 January	107,016	286,975	1,250,880	1,199,006	117,727	130,778
FUND BALANCES, 31 DECEMBER	48,450	107,016	1,475,183	1,250,880	97,538	117,727
	statement 2.1		statement 2.2		schedule 7	

The accompanying notes are an integral part of the financial statements

ANNEX 5

UNITED NATIONS DEVELOPMENT PROGRAMME
BIENNIUM 2000 - 2001

OVERVIEW

Assets, Liabilities and Reserves and Fund Balances
As of 31 December

(Thousands of United States dollars)

	Regular Resources Activities		Other Resources Activities		Funds Administered by UNDP	
	2001	1999	2001	1999	2001	1999
ASSETS						
Cash	-	13,626	11,629	3,655	1,229	494
Government letters of credit and Promissory notes	-	-	43,523	35,756	-	-
Investments held for						
Operational Reserves	151,680	180,000	-	-	-	-
Regular Resources	126,458	31,912	212,777	227,451	105,625	191,580
Cost-sharing	746,841	137,831	-	408,800	-	-
Govt Cash Counterpart contributions	19,463	19,768	-	-	-	-
Funds and Trust Funds	240,896	151,365	-	-	-	-
Reimbursable services and misc activities	334,708	238,854	-	39,036	-	-
Medical Insurance Plan	22,056	13,150	-	-	-	-
Sub total - investments	1,641,982	772,880	212,777	675,287	105,625	191,580
Total Cash, Letters of credit, Promissory notes and Investments	1,641,982	786,506	267,929	714,698	106,854	192,074
Advances						
Operating funds provided to Governments	18,956	49,042	133,595	154,713	442	389
Operating funds provided to Executing agents	44,175	87,704	68,688	89,455	4,396	606
Accounts Receivable and Deferred Charges						
Due from Core Activities	-	-	1,386,907	633,261	26,533	643
Reserves for Field Accomodation	11,929	14,346	-	-	-	-
United Nations	3,177	2,651	-	-	-	-
Junior Professional Officers Programme	-	34,231	-	-	-	-
Trust Funds Established by UNDP	55,035	12,840	-	-	-	-
Funds Administered by UNDP	-	24,678	-	-	-	-
United Nations Office for Project Services	-	-	-	-	-	-
United Nations Population Fund	16,358	33,872	-	-	-	-
Other accounts receivable and deferred charges	52,256	33,029	68,024	66,541	24,295	11,678
Accrued interest	12,435	7,889	12,134	21,880	1,420	3,508
Long-term Accounts Receivable	-	-	780	953	-	-
Special Capitalised Asset	1,570	1,570	-	-	-	-
Loans to Governments	-	-	967	1,225	933	2,667
Construction Costs	-	-	44,503	45,308	-	-
Capitalized Rehabilitation	-	-	1,220	1,245	-	-
Household Appliance Rental Scheme	-	-	-	-	-	-
Allowance for write-down	-	-	(10,899)	(11,224)	-	-
TOTAL ASSETS	1,857,873	1,088,358	1,973,848	1,718,055	164,872	211,565
	statement II.1		statement II.2		schedule 7	

A/57/5/Add.1

UNITED NATIONS DEVELOPMENT PROGRAMME
BIENNIUM 2000 - 2001

OVERVIEW

Assets, Liabilities and Reserves and Fund Balances
As of 31 December

(Thousands of United States dollars)

	Regular Resources Activities		Other Resources Activities		Funds Administered by UNDP	
	2001	1999	2001	1999	2001	1999
LIABILITIES						
Operating funds payable to Governments	2,738	5,306	19,788	17,880	92	137
Operating funds payable to Executing agents	2,205	21,972	41,044	44,730	5,526	6,221
Unliquidated obligations	70,801	64,434	193,808	182,748	5,785	5,236
Accounts payable	55,528	45,901	65,329	74,720	6,762	4,489
Due to UNDP - regular resources by						
Reserve for Field Accomodation	-	-	11,929	14,346	-	-
Junior Professional Officers Programme	-	-	-	34,231	-	-
Trust Funds	-	-	55,039	12,840	-	-
Due to Core Activities	-	-	-	-	-	-
Funds Administered by UNDP	-	-	-	-	-	24,678
Due to Other Resources and Funds						
Cost sharing	746,841	137,831	-	-	-	-
Govt Cash Counterpart Contributions	19,463	19,768	-	-	-	-
Trust Funds established by UNDP	269,356	188,232	-	-	-	-
Funds Administered by UNDP	26,536	643	-	-	-	-
Junior Professional Officers	4,604	-	-	-	-	-
Reimbursable services and misc activities	346,637	287,430	-	-	-	-
Sub total - Due to Other Resources and Funds	1,408,833	633,904	-	-	-	-
Due to Special Measures Fund	-	-	-	-	-	-
United Nations	-	-	-	-	-	-
United Nations Office of Project services	32,611	15,955	-	-	-	-
United Nations Population Fund	-	-	-	-	-	-
Government Advances for rehabilitation costs	-	-	-	-	-	-
Agency reimbursement of construction costs	-	-	3,948	3,672	-	-
Deferred income	24,883	-	-	-	-	-
Reserves for Special Initiatives	3,250	12,300	-	-	-	-
Reserve for After Service Health Insurance	56,000	-	-	-	-	-
Reserve for Medical Evacuation	-	-	-	-	1,789	1,377
TOTAL LIABILITIES	1,659,453	799,772	390,885	385,167	19,954	42,138
Operational reserve	151,600	180,000	64,600	54,000	45,400	51,700
Endowment fund	-	-	3,000	3,000	-	-
Funds balance - authorized level	-	-	25,000	25,000	-	-
Special Capital Resources	1,570	1,570	-	-	-	-
Unexpended Resources	45,250	107,016	1,490,363	1,250,888	99,519	117,727
Total Unexpended Resources and Special Capital Resources	46,820	108,586	1,490,363	1,250,888	99,519	117,727
TOTAL RESERVES AND FUND BALANCES	198,420	288,586	1,582,963	1,332,888	144,919	169,427
TOTAL LIABILITIES AND RESERVES AND FUND BALANCES	1,857,873	1,088,358	1,973,848	1,718,055	164,873	211,565
	statement II.1		statement II.2		schedule 7	

UNITED NATIONS DEVELOPMENT PROGRAMME
BIENNIUM 2000-2001

OVERVIEW
Statement of Cash Flows for the biennium ended 31 December 2001

(Thousands of United States dollars)

	Regular Resources Activities		Other Resources Activities		Funds Administered by UNDP	
	2001	1999	2001	1999	2001	1999
CASH FLOWS FROM OPERATING ACTIVITIES						
Excess (shortfall) of Income over expenditure	(91,058)	(187,956)	258,693	115,116	(23,955)	(8,63)
1 - Add Inflows (Less outflows)						
Increase (decrease) in accounts payable and other liabilities	9,627	196	(9,391)	29,972	2,273	2,03
(Increase) decrease in other accounts receivable	(19,227)	(13,191)	(1,483)	(39,884)	(13,617)	(9,061)
(Increase) decrease in operating funds provided to Governments - net	37,818	1,480	23,026	(14,943)	(98)	1,477
(Increase) decrease in operating funds provided to Executing agents - net	23,762	(8,454)	17,081	(45,914)	(4,485)	3,095
Increase (decrease) in Reserves for Special Initiatives	(9,050)	12,166	-	-	-	-
Increase (decrease) in Reserve for After Service Health Insurance	56,000	-	-	-	-	-
Increase (decrease) in Deferred income	26,883	-	-	-	-	-
Increase (decrease) in operational reserve	(28,400)	(20,000)	10,600	54,000	(6,300)	-
Increase (decrease) in unliquidated obligations	6,367	(3,934)	11,060	8,237	549	(2,708)
Less interest income	(35,672)	68,288	181,572	127,081	14,760	20,837
Net cash from operating activities	36,994	(267,991)	128,014	(20,497)	(39,393)	(34,638)
CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES						
2 - Add Inflows (Less outflows)						
(Increase) decrease in due to/from Other Programmes	798,664	(410,602)	(748,095)	393,302	(50,566)	19,745
(Increase) decrease in due from United Nations	(526)	(3,688)	-	-	-	-
(Increase) decrease in due from UNFPA	17,514	(13,678)	-	-	-	-
Increase (decrease) in due to UNOPS	16,456	2,977	-	-	-	-
(Increase) decrease in accrued interest	(6,566)	5,323	9,746	(4,027)	2,088	346
Increase (decrease) in RFA activities	-	-	1,212	-	-	-
(Increase) decrease in loans to Governments	-	-	-	-	1,734	2,970
Add interest income	(35,672)	68,288	181,572	127,081	14,760	20,837
Net cash from investing and financing activities	792,090	(351,380)	(555,569)	516,356	(31,986)	43,898
CASH FLOWS FROM OTHER SOURCES						
Savings on prior biennium's obligations	7,656	3,846	3,470	1,087	208	-
Refunds to Donors and Transfers to / from other funds - net	(6,764)	(13,849)	(11,088)	(7,381)	(761)	(4,412)
Movement in Operational Reserve	28,400	20,000	(10,600)	(54,000)	6,300	3,200
Movement in Reserve for Medical Evacuation	-	-	-	-	412	1,377
Net cash from other sources	29,292	9,997	(18,218)	(60,294)	6,159	165
NET INCREASE (DECREASE) IN CASH, LETTERS OF CREDIT AND INVESTMENTS	855,476	(629,364)	(446,769)	435,565	(65,220)	9,425
1 - CASH, LETTERS OF CREDIT AND INVESTMENTS AS AT 1 JANUARY	786,906	1,415,870	714,698	279,133	192,674	182,649
2 - CASH, LETTERS OF CREDIT AND INVESTMENTS AS AT 31 DECEMBER	1,641,382	786,506	267,929	714,698	126,454	192,074
	statement II.1		statement II.2		schedule 7	

The accompanying notes are an integral part of the financial statements

a/ see statement 1.1

b/ see statement 1.2

UNITED NATIONS DEVELOPMENT PROGRAMME

BIENNIUM 2000 - 2001

OVERVIEW

Movement in resources balances for the biennium ended 31 December 2001

(Thousands of United States dollars)

	Regular Resources Activities	Other Resources Activities	Funds Administered by UNDP
Balance as at 1 January 2000	107,016	1,250,888	117,727
Net excess (shortfall) of income over expenditure	(91,058)	250,693	(23,955)
Savings on prior biennium's obligations	7,656	2,470	208
Transfer (to) from reserves	26,400	(10,600)	6,300
Refunds to donors and transfers (to) from other funds	(6,764)	(11,088)	(761)
Balance as at 31 December 2001	45,250	1,490,363	99,519

overview

UNITED NATIONS DEVELOPMENT PROGRAMME

BIENNIUM 2000-2001

Statement I. Income and expenditures and fund balances for the biennium ended 31 December 2001
I.1 Regular Resources Actvities

(Thousands of United States dollars)

		Core Activities		Special Measures Fund for Least Developed Countries (LDCs)		Total Regular Resources Activities	
		2000-2001	1998-1999	2000-2001	1998-1999	2000-2001	1998-1999
INCOME							
Contributions		1,305,950	1,451,582	5	2	1,305,955	1,451,584
Less transfer to Biennial support budget	note 6	(20,063)	(24,466)	-	-	(20,063)	(24,466)
Contributions - net		1,285,887	1,427,116	5	2	1,285,892	1,427,118
Interest Income	note 7	(35,672)	68,288	-	-	(35,672)	68,288
Other Income	schedule 1	64,395	8,974	3	-	64,398	8,974
TOTAL INCOME		1,314,610	1,504,378	8	2	1,314,618	1,504,380
EXPENDITURE							
Programme		710,603	1,077,006	244	761	710,847	1,077,767
Programme support - Implementing agents		75,791	89,871	-	-	75,791	89,871
Programme support to Resident Coordinator	note 20 (a)	16,626	21,033	-	-	16,626	21,033
Development Support Services	note 11	2,311	-	-	-	2,311	-
UNDP Sectoral support services		-	527	-	-	-	527
Biennial support budget - net	schedule 3	500,395	493,133	-	-	500,395	493,133
Other Expenditure	schedule 1	99,706	10,000	-	5	99,706	10,005
TOTAL EXPENDITURE		1,405,432	1,691,570	244	766	1,405,676	1,692,336
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE		(90,822)	(187,192)	(236)	(764)	(91,058)	(187,956)
Savings on prior biennium's obligations		7,656	3,846	-	-	7,656	3,846
Transfer (to) from reserves		28,400	7,700	-	-	28,400	7,700
Refunds to donors and transfers (to) from other funds		(6,764)	(1,549)	-	-	(6,764)	(1,549)
Fund balances, 1 January		95,828	273,023	11,188	11,952	107,016	284,975
FUND BALANCES, 31 DECEMBER		34,298	95,828	10,952	11,188	45,250	107,016

UNITED NATIONS DEVELOPMENT PROGRAMME

BIENNIUM 2000-2001

Statement I. Income and expenditure and fund balances for the biennium ended 31 December 2001

I.2 Other Resources Activities

(Thousands of United States dollars)

		UNDP Cost-Sharing		Government Cash Counterpart Contributions (GCCC)		Trust Funds Established by UNDP		Reimbursable Support Services and Miscellaneous Activities		Elimination (2j)		Total Other Resources Activities	
		2000-2001	1998-1999	2000-2001	1998-1999	2000-2001	1998-1999	2000-2001	1998-1999	2000-2001	1998-1999	2000-2001	1998-1999
INCOME													
Contributions		2,376,584	2,451,735	9,392	10,854	886,749	603,861	300,115	343,524	-	-	3,570,840	3,409,974
Interest Income	note 7	89,254	69,486	-	-	42,633	49,698	39,485	27,907	-	-	181,572	127,081
Other Income	schedule 1	1,105	-	(1)	-	3,850	364	208,985	169,059	(79,479)	(85,176)	131,460	84,247
TOTAL INCOME		2,474,943	2,501,221	9,391	10,854	933,432	653,913	548,585	540,490	(79,479)	(85,176)	3,883,872	3,621,302
EXPENDITURE													
Programme		2,216,814	2,269,805	9,055	7,381	629,481	641,544	277,938	356,423	-	-	3,133,168	3,275,153
Programme support - implementing agents		20,135	27,904	13	65	20,188	23,386	5,547	6,042	-	-	45,883	57,477
Programme support to Resident Coordinator	note 20 (a)	-	-	-	-	-	-	3,239	690	-	-	3,239	690
Biennial support budget - net	schedule 3	79,674	76,636	-	-	54,680	32,699	182,720	145,451	(79,479)	(85,176)	237,595	169,610
Other Expenditure	schedule 1	-	-	-	-	2,793	3,054	1,521	202	-	-	5,314	3,256
TOTAL EXPENDITURE		2,316,623	2,374,425	9,068	7,446	906,112	700,683	470,965	508,808	(79,479)	(85,176)	3,425,179	3,506,186
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE		158,320	126,796	323	3,408	25,320	(46,770)	77,620	31,682	-	-	458,693	115,116
Savings on prior biennium's obligations		-	-	-	-	148	-	2,188	1,087	-	-	2,470	1,087
Transfer (to) from reserves		-	-	-	-	-	-	(10,600)	(54,000)	-	-	(10,600)	(54,000)
Refunds to donors and transfers (to) from other funds		(10,000)	81	-	-	(208)	(5,143)	(880)	(5,019)	-	-	(11,088)	(10,381)
Fund balances, 1 January		699,698	572,821	19,602	16,194	391,583	443,796	140,005	166,255	-	-	1,250,888	1,199,066
FUND BALANCES, 31 DECEMBER		848,018	699,698	19,925	19,602	416,977	391,583	205,443	140,005	-	-	1,690,363	1,250,888
						schedule 5		schedule 6				overview	

UNITED NATIONS DEVELOPMENT PROGRAMME
BIENNIUM 2000 - 2001

Statement II - Assets,liabilities and Reserves & Fund balances
as at 31 December
II.1 Regular Resources Activities

(Thousands of United States dollars)

		Core Activities		Special Measures Fund for Least Developed Countries (LDCs)		Elimination (note 2)		Total Regular Resources Activities	
		2001	1999	2001	1999	2001	1999	2001	1999
ASSETS									
Cash	note 6	-	13,626	-	-	-	-	-	13,626
Government letters of credit and Promissory notes	note 9	-	-	-	-	-	-	-	-
Investments held for									
Operational Reserves	note 2	151,600	180,000	-	-	-	-	151,600	180,000
Regular Resources		126,458	31,912	-	-	-	-	126,458	31,912
Cost-sharing		746,841	137,831	-	-	-	-	746,841	137,831
Govt Cash Counterpart contributions		19,463	19,768	-	-	-	-	19,463	19,768
Funds and Trust Funds		240,856	151,365	-	-	-	-	240,856	151,365
Reimbursable services and misc activities		334,708	238,854	-	-	-	-	334,708	238,854
Medical Insurance Plan		22,056	13,150	-	-	-	-	22,056	13,150
Sub total - Investments		1,641,982	772,880	-	-	-	-	1,641,982	772,880
Total Cash, Letters of credit and Investments		1,641,982	786,506	-	-	-	-	1,641,982	786,506
Advances									
Operating funds provided to Governments		18,899	49,042	57	-	-	-	18,956	49,042
Operating funds provided to Executing agents		44,175	87,704	-	-	-	-	44,175	87,704
Account receivables and deferred charges									
Due from:									
Due from Core Activities		-	-	10,895	11,188	(10,895)	(11,188)	-	-
Reserves for Field Accomodation		11,929	14,346	-	-	-	-	11,929	14,346
Junior Professional Officers Programme		-	34,231	-	-	-	-	-	34,231
Trust Funds Established by UNDP		55,035	12,840	-	-	-	-	55,035	12,840
Funds Administered by UNDP		-	24,678	-	-	-	-	-	24,678
United Nations Population Fund		16,358	33,872	-	-	-	-	16,358	33,872
United Nations Office for Project Services		-	-	-	-	-	-	-	-
United Nations		3,177	2,651	-	-	-	-	3,177	2,651
Other accounts receivable and deferred charges	note 11 (a)	52,256	33,029	-	-	-	-	52,256	33,029
Accrued interest		12,435	7,889	-	-	-	-	12,435	7,889
Special Capitalised Asset	note 13 (a)	1,570	1,570	-	-	-	-	1,570	1,570
TOTAL ASSETS		1,857,816	1,088,358	10,952	11,188	(10,895)	(11,188)	1,857,873	1,088,358

II.1 Regular Resources Activities (continued)

		Core Activities		Special Measures Fund for Least Developed Countries (LDCs)		Elimination (note 2)		Total Regular Resources Activities	
		2001	1999	2001	1999	2001	1999	2001	1999
LIABILITIES									
Operating funds payable to Governments		2,738	5,306	-	-	-	-	2,738	5,306
Operating funds payable to Executing agents		2,205	21,972	-	-	-	-	2,205	21,972
Unliquidated obligations	note 17	70,801	64,434	-	-	-	-	70,801	64,434
Accounts payable	note 11 (b)	55,528	45,901	-	-	-	-	55,528	45,901
Due to Other Resources and Funds									
Cost sharing		746,841	137,831	-	-	-	-	746,841	137,831
Govt Cash Counterpart Contributions		19,463	19,768	-	-	-	-	19,463	19,768
Due to Core Activities		-	-	-	-	-	-	-	-
Junior Professional Officers		4,604	-	-	-	-	-	4,604	-
Trust Funds established by UNDP		269,356	188,232	-	-	-	-	269,356	188,232
Funds Administered by UNDP		26,536	643	-	-	-	-	26,536	643
Reimburseable services and misc activities		346,637	287,430	-	-	-	-	346,637	287,430
Sub total - Due to other Resources and Funds		1,413,437	633,904	-	-	-	-	1,413,437	633,904
Due to Special Measures Fund		10,895	11,188	-	-	(10,895)	(11,188)	-	-
United Nations		-	-	-	-	-	-	-	-
United Nations Office of Project services		32,611	15,955	-	-	-	-	32,611	15,955
United Nations Population Fund		-	-	-	-	-	-	-	-
Deferred income	note 13 (b)	26,883	-	-	-	-	-	26,883	-
Reserves for Special Initiatives	note 14	3,250	12,300	-	-	-	-	3,250	12,300
Reserve for After Service Health Insurance	note 16 (c)	54,000	-	-	-	-	-	54,000	-
Reserve for UN House initiative		-	-	-	-	-	-	-	-
TOTAL LIABILITIES		1,670,348	810,960	-	-	(10,895)	(11,188)	1,659,453	799,772
RESERVES AND FUND BALANCES									
Operational reserve	note 2	151,600	180,000	-	-	-	-	151,600	180,000
Special Capital Resources	note 13 (a)	1,570	1,570	-	-	-	-	1,570	1,570
Unexpended Resources		34,298	95,828	10,952	11,188	-	-	45,250	107,016
Total Unexpended Resources and Special Capital Resources		35,868	97,398	10,952	11,188	-	-	46,820	108,586
TOTAL RESERVES AND FUND BALANCES		187,468	277,398	10,952	11,188	-	-	198,420	288,586
TOTAL LIABILITIES AND RESERVES AND FUND BALANCES		1,857,816	1,088,358	10,952	11,188	(10,895)	(11,188)	1,857,873	1,088,358

The accompanying notes are integral part of the financial statements

UNITED NATIONS DEVELOPMENT PROGRAMME
BIENNIUM 2000 - 2001

Statement II - Assets, liabilities and Reserves and Fund balances
as at 31 December
II.2 Other Resources Activities

(Thousands of United States dollars)

		UNDP Cost-Sharing		Government Cash Counterpart Contributions (GCCC)		Trust Funds Established by UNDP		Reimbursable Support Services and Miscellaneous Activities		Total Other Resources Activities	
		2001	1999	2001	1999	2001	1999	2001	1999	2001	1999
ASSETS											
Cash	note 8	-	-	-	-	18	4	11,611	3,651	11,629	3,655
Government letters of credit and Promissory notes	note 9	11,873	4,506	-	-	31,650	31,250	-	-	43,523	35,756
Investments held for											
Regular Resources		-	-	-	-	212,777	227,451	-	-	212,777	227,451
Reimbursable services and misc activities		-	-	-	-	-	-	-	39,036	-	39,036
Cost-sharing		-	408,800	-	-	-	-	-	-	-	408,800
Sub total - Investments		-	408,800	-	-	212,777	227,451	-	39,036	212,777	675,287
Total Cash, Letters of credit, Promissory notes and Investments		11,873	413,306	-	-	244,445	258,705	11,611	42,687	267,929	714,698
Advances											
Operating funds provided to Governments		92,542	130,222	691	449	40,362	24,042	-	-	133,595	154,713
Operating funds provided to Executing agents		49,813	87,704	-	-	18,875	1,751	-	-	68,688	89,455
Account receivables and deferred charges											
Due from Core Activities		746,841	137,831	19,463	19,768	269,361	188,232	351,242	287,430	1,386,907	633,261
Other accounts receivable and deferred charges	note 11 (a)	40,659	52,661	-	-	7,316	5,781	20,869	8,273	68,844	66,941
Accrued interest		10,200	16,661	-	-	1,936	5,439	-	-	12,136	22,100
Long term Accounts Receivable	note 12	-	-	-	-	-	-	780	903	780	903
Loans to Governments		-	-	-	-	-	-	967	1,335	967	1,335
Construction Costs		-	-	-	-	-	-	44,503	45,358	44,503	45,358
Capitalized Rehabilitation		-	-	-	-	-	-	1,230	1,245	1,230	1,245
Household Appliance Rental Scheme		-	-	-	-	-	-	-	-	-	-
Allowance for write-down		-	-	-	-	-	-	(10,899)	(11,324)	(10,899)	(11,324)
TOTAL ASSETS		951,936	837,985	20,154	20,217	582,295	483,956	419,473	375,897	1,973,858	1,718,055

11.2 Other Resources Activities (continued)

		UNDP Cost-Sharing		Government Cash Counterpart Contributions (GCCC)		Trust Funds Established by UNDP		Reimbursable Support Services and Miscellaneous Activities		Total Other Resources Activities	
		2001	1999	2001	1999	2001	1999	2001	1999	2001	1999
LIABILITIES											
Operating funds payable to Governments		13,378	16,093	229	612	6,181	3,175	-	-	19,788	17,880
Operating funds payable to Executing agents		2,687	21,617	-	-	38,886	23,113	3	-	41,044	44,730
Unliquidated obligations	note 17	58,136	50,200	-	-	59,168	42,912	76,536	89,636	193,808	182,748
Accounts payable	note 11 (b)	29,918	52,377	-	3	3,385	7,333	33,033	15,007	65,329	74,720
Due to UNDP - Regular Resources by											
Reserve for Field Accomodation		-	-	-	-	-	-	11,929	14,346	11,929	14,346
Junior Professional Officers Programme		-	-	-	-	-	-	-	34,231	-	34,231
Trust Funds		-	-	-	-	55,030	12,040	-	-	55,030	12,040
Government Advances for rehabilitation costs		-	-	-	-	-	-	-	-	-	-
Agency reimbursement of construction costs		-	-	-	-	-	-	3,948	3,672	3,948	3,672
Deferred income		-	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES		103,919	139,287	229	615	162,208	89,573	125,630	156,692	390,883	385,167
RESERVES AND FUND BALANCES											
Funds balance - authorized level		-	-	-	-	-	-	25,000	25,000	25,000	25,000
Operational reserve		-	-	-	-	-	-	54,000	54,000	54,000	54,000
Endowment fund		-	-	-	-	3,000	3,000	-	-	3,000	3,000
Unexpended Resources		668,018	699,698	19,825	19,602	416,977	391,583	289,443	140,000	1,493,263	1,250,884
TOTAL RESERVES AND FUND BALANCES		668,018	699,698	19,825	19,602	419,977	394,583	368,443	219,000	1,583,963	1,332,884
TOTAL LIABILITIES AND RESERVES AND FUND BALANCES		771,938	837,985	20,154	20,217	582,185	484,156	494,073	375,692	1,973,848	1,718,051
						schedule 9		schedule 6		cross/see	

The accompanying notes are an integral part of the financial statements

UNITED NATIONS DEVELOPMENT PROGRAMME
BIENNIUM 2000 - 2001

Statement III: Statement of Cash Flows for the biennium ended 31 December 2001
III.1 Regular Resources Activities

(Thousands of United States dollars)

	Core Activities	Special Measure: Fund for Least Developed Countries (LDCs)	Total Regular Resources Activities	
			2001	1999
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (shortfall) of income over expenditure	(90,822)	(236)	(91,058)	(187,958)
1 - Add Inflows (Less outflows)				
Increase (decrease) in accounts payable	9,627	-	9,627	196
(Increase) decrease in other accounts receivable and deferred charges	(19,227)	-	(19,227)	(13,191)
(Increase) decrease in operating funds provided to Governments - net	27,575	(57)	27,518	1,480
(Increase) decrease in operating funds provided to Executing agents - net	23,762	-	23,762	(8,494)
Increase (decrease) in Reserves for Special Initiatives	(9,050)	-	(9,050)	12,166
Increase (decrease) in Reserve for After Service Health Insurance	54,000	-	54,000	-
Increase (decrease) Deferred income	26,883	-	26,883	-
Increase (decrease) in operational reserve	(20,000)	-	(20,000)	(20,000)
Increase (decrease) in unliquidated obligations	6,367	-	6,367	(3,934)
Less interest income	(35,672)	-	(35,672)	68,298
Net cash from operating activities	74,387	(293)	74,094	(247,992)
CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES				
2 - Add Inflows (Less outflows)				
(Increase) decrease in Due from UNFPA	17,814	-	17,814	(23,678)
Increase in Due to UNOPS	16,656	-	16,656	2,977
Increase (decrease) in Due to other programmes - net	798,371	293	798,664	(410,602)
(Increase) decrease in accrued interest	(6,566)	-	(6,566)	9,323
(Increase) decrease in Due from United Nations	(526)	-	(526)	(3,668)
Add Interest income	(35,672)	-	(35,672)	68,298
Net cash from investing and financing activities	791,797	293	792,090	(351,340)
CASH FLOWS FROM OTHER SOURCES				
Savings on prior biennium's obligations	7,656	-	7,656	3,644
Refunds to Donors and Transfers to/from other funds - net	(6,764)	-	(6,764)	(13,644)
Movement in operational reserves	28,600	-	28,600	20,000
Net cash from other sources	29,392	-	29,292	9,900
NET INCREASE (DECREASE) IN CASH, LETTERS OF CREDIT AND INVESTMENTS	895,676	-	895,476	(689,364)
1 - **CASH, LETTERS OF CREDIT AND INVESTMENTS AS AT 1 JANUARY**	746,306	-	746,306	1,435,870
2 - **CASH, LETTERS OF CREDIT AND INVESTMENTS AS AT 31 DECEMBER**	1,641,982	-	1,641,982	746,506

The accompanying notes are an integral part of the financial statements

UNITED NATIONS DEVELOPMENT PROGRAMME
BIENNIUM 2000-2001

Statement III: Statement of Cash Flows for the biennium ended 31 December 2001
III.2 Other Resources Activities

(Thousands of United States dollars)

	Cost-sharing	Government Cash Counterpart Contributions (GCCC)	Trust Funds Established by UNDP	Reimbursable Support Services and Miscellaneous Activities	Total Other Resources Activities 2001	1999
CASH FLOWS FROM OPERATING ACTIVITIES						
Excess (shortfall) of income over expenditure	158,320	323	25,320	74,730	258,693	215,116
1 - Add Inflows (Less outflows)						
Increase (decrease) in accounts payable and other liabilities	(22,458)	(3)	(3,968)	17,010	(9,391)	29,972
(Increase) decrease in other accounts receivable	11,822	-	(1,529)	(11,776)	(1,483)	(39,666)
(Increase) decrease in operating funds provided to Governments - net	36,965	(625)	(13,314)	-	23,026	(14,943)
(Increase) decrease in operating funds provided to Executing agents - net	18,761	-	(1,682)	2	17,081	(45,914)
Increase (decrease) in operational reserve	-	-	-	10,600	10,600	54,000
Increase (decrease) Increase in unliquidated obligations	7,934	-	16,236	(13,110)	11,060	8,237
Less interest income	99,254	-	62,833	79,495	291,572	127,081
Net cash from operating activities	112,090	(205)	(21,750)	37,979	128,014	(20,497)
CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES						
2 - Add Inflows (Less outflows)						
(Increase) decrease in due from other programmes	(609,010)	305	(30,930)	(100,460)	(740,095)	393,302
(Increase) decrease in accrued interest	6,233	-	3,513	-	9,746	(6,027)
Increase (decrease) in EPA activities	-	-	-	1,212	1,212	-
Add interest income	99,254	-	62,833	79,495	291,572	127,081
Net cash from investing and financing activities	(503,523)	305	7,416	(19,753)	(555,565)	514,356
CASH FLOWS FROM OTHER SOURCES						
Savings on prior biennium's obligations	-	-	202	2,168	2,470	1,087
Refunds to Donors and Transfers to/from other funds - net	(10,000)	-	(206)	(800)	(11,006)	(7,301)
Movement in Operational reserves	-	-	-	(10,600)	(10,600)	(54,000)
Net cash from other sources	(10,000)	-	76	(9,232)	(19,216)	(60,294)
NET INCREASE (DECREASE) IN CASH, LETTERS OF CREDIT AND INVESTMENTS	(401,433)	-	(14,260)	(31,076)	(446,769)	435,565
1 - CASH, LETTERS OF CREDIT AND INVESTMENTS AS AT 1 JANUARY	413,304	-	258,705	42,687	714,696	279,131
2 - CASH, LETTERS OF CREDIT AND INVESTMENTS AS AT 31 DECEMBER	11,871	-	244,445	11,611	267,927	714,696

The accompanying notes are an integral part of the financial statements

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(Thousands of United States dollars)

	Core Activities	Special Resource Fund for Least Developed Countries (SFLDC)	Total Regular Resources Activities
Balance as at 1 January 2000	89,899	11,169	101,068
Net excess (shortfall) of income over expenditure	(90,933)	(209)	(91,092)
Savings on prior biennium's obligations	1,000	-	1,000
Transfer out from reserves	28,600	-	28,600
Refunds to donors and transfers out from other funds	(8,700)	-	(8,700)
Balance as at 31 December 2001	30,266	10,960	40,226

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The accompanying notes are an integral part of the financial statements

[illegible] DEVELOPMENT PROGRAMME

[illegible] 2000 - 2001

Statement IV

Statement of resources balances for the biennium ended 31 December 2001

IV.2 Other Resources Activities

(Thousands of United States dollars)

	Idle Cash Balance	Unresources Cash Counterpart Contributions (Note)	Trust Funds Established by UNDP	Reimbursable Support Services and Miscellaneous Activities	Total Other Resources Activities
Balance as at 1 January 2000	600,000	10,000	201,500	100,000	1,200,000
Net excess (shortfall) of income over expenditure	150,320	500	25,500	10,750	200,000
Savings on prior biennium's obligations	-	-	200	2,100	2,070
Transfer (to) from reserves	-	-	-	(12,000)	(12,000)
Refunds to donors and transfers (to) from other funds	(50,000)	-	(200)	(800)	(51,000)
Balance as at 31 December 2001	700,320	10,500	226,977	100,050	1,339,352

The accompanying notes are an integral part of the financial statements